

Q2 2024 Apple Inc Earnings Call Transcript

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Q & A

Suhasini Chandramouli

Apple Inc. - Director of IR

Good afternoon, and welcome to the Apple Q2 Fiscal Year 2024 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 Luca Maestri. After that, we'll open the call to questions from analysts.

Please note that some of the information you'll hear during our discussion today will consist of forward-looking statements including, without limitation, those regarding revenue, gross margin, operating expenses, other income and expense, taxes, capital allocation, and future business outlook including the potential impact of macroeconomic conditions on the company's business and results of operations. These statements involve risks and uncertainties that may cause actual results or trends to differ materially from our forecast. For more information, please refer to the risk factors discussed in Apple's most recently filed annual report on Form 10-K and the Form 8-K filed with the SEC today, along with the associated press release. Apple assumes no obligation to update any forward-looking statements, which speak only as of the date they are made.

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

Timothy D. Cook

Apple Inc. - CEO & Director

Thank you, Suhasini. Good afternoon, everyone, and thanks for joining the call. Today, Apple is reporting revenue of \$90.8 billion and an EPS record of \$1.53 for the March quarter. We set revenue records in more than a dozen countries and regions. These include, among others, March quarter records in Latin America and the Middle East as well as Canada, India, Spain and Turkey. We also achieved an all-time revenue record in Indonesia, one of the many markets where we continue to see so much potential.

In Services, we set an all-time revenue record, up 14% over the past year. Keep in mind, as we described on the last call, in the March quarter a year ago, we were able to replenish iPhone channel inventory and fulfill significant pent-up demand from the December quarter COVID-related supply disruptions on the iPhone 14 Pro and 14 Pro Max. We estimate this onetime impact added close to \$5 billion to the March quarter revenue last year. If we removed this from last year's results, our March quarter total company revenue this year would have grown. Despite this impact, we were still able to deliver the records I described.

Of course, this past quarter, we were thrilled to launch Apple Vision Pro, and it has been so wonderful to hear from people who now get to experience the magic of spatial computing. They described the impossible becoming possible right before their eyes, and they share their amazement and their emotions about what they can do now, whether it's reliving their most treasured memories or having a movie theater experience right in their living room.

It's also great to see the enthusiasm from the enterprise market. For example, more than half of the Fortune 100 companies have already bought Apple Vision Pro units and are exploring innovative ways to use it to do things that weren't possible before. And this is just the beginning.

Looking ahead, we're getting ready for an exciting product announcement next week that we think our customers will love. And next month, we have our Worldwide Developers Conference, which has generated enormous enthusiasm from our developers. We can't wait to reveal what we have in store.

We continue to feel very bullish about our opportunity in generative AI. We are making significant investments, and we're looking forward to sharing some very exciting things with our customers soon. We believe in the transformative power and promise of AI, and we believe we have advantages that will differentiate us in this new era, including Apple's unique combination of seamless hardware, software, and services integration, groundbreaking Apple silicon with our industry-leading neural engines, and our unwavering focus on privacy, which underpins everything we create. As we push innovation forward, we continue to manage thoughtfully and deliberately through an uneven macroeconomic environment and remain focused on putting our users at the center of everything we do.

Now let's turn to our results for the March quarter across each product category beginning with iPhone. iPhone revenue for the March quarter was \$46 billion, down 10% year-over-year. We faced a difficult compare over the previous year due to the \$5 billion impact that I mentioned earlier. However, we still saw growth on iPhone in some markets including Mainland China, and according to Kantar, during the quarter, the 2 bestselling smartphones in urban China were the iPhone 15 and iPhone 15 Pro Max.

I was in China recently where I had the chance to meet with developers and creators who are doing remarkable things with iPhone. And just a couple of weeks ago, I visited Vietnam, Indonesia and Singapore, where it was incredible to see all the ways customers and communities are using our products and services to do amazing things. Everywhere I travel, people have such a great affinity for Apple, and it's one of the many reasons I'm so optimistic about the future.

Turning to Mac. March quarter revenue was \$7.5 billion, up 4% from a year ago. We had an amazing launch in early March with the new 13- and 15-inch MacBook Air. The world's most popular laptop is the best consumer laptop for AI with breakthrough performance of the M3 chip and its even more powerful neural engine. Whether it's an entrepreneur starting a new business or a college student finishing their degree, users depend on the power and portability of MacBook Air to take them places they couldn't have gone without it.

In iPad, revenue for the March quarter was \$5.6 billion, 17% lower year-over-year due to a difficult compare with the momentum following the launch of M2 iPad Pro and the 10th generation iPad last fiscal year. iPad continues to stand apart for its versatility, power and performance. For video editors, music makers and creatives of all kinds, iPad is empowering users to do more than they ever could with a tablet.

Across Wearables, Home and Accessories, March quarter revenue was \$7.9 billion, down 10% from a year ago due to a difficult launch compare on Watch and AirPods. Apple Watch is helping runners go the extra mile on their wellness journeys, keeping hikers on course with the latest navigation capabilities in watchOS 10 and enabling users of all fitness levels to live a healthier day. Across our Watch lineup, we're harnessing AI and machine learning to power life-saving features like irregular rhythm notifications and fall detection. I often hear about how much these features mean to users and their loved ones, and I'm thankful that so many people are able to get help in their time of greatest need.

As I shared earlier, we set an all-time revenue record in Services with \$23.9 billion, up 14% year-over-year. We also achieved all-time revenue records across several categories and geographic segments. Audiences are tuning in on screens large, small and spatial and are enjoying Apple TV+ originals like Palm Royale and Sugar. And we have some incredible theatrical releases coming this year, including Wolves, which reunites George Clooney and Brad Pitt. Apple TV+ productions continue to be celebrated as major awards contenders. Since launch, Apple TV+ productions have earned more than 2,100 award nominations and 480 wins.

Meanwhile, we're enhancing the live sports experience with a new iPhone app, Apple Sports. This free app allows fans to follow their favorite teams and leagues with real-time scores, stats and more. Apple Sports is the perfect companion for MLS Season Pass subscribers.

Turning to retail. Our stores continue to be vital spaces for connection and innovation. I was delighted to be in Shanghai for the opening of our latest flagship store. The energy and enthusiasm from our customers was truly something to behold. And across the United States, our incredible retail teams have been sharing Vision Pro demos with customers, delighting them with a profound and emotional experience of using it for the very first time.

Everywhere we operate, in everything we do, we're guided by our mission to enrich users' lives and leave the world better than we found it, whether we're making Apple Podcasts more accessible with a new transcripts feature or helping to safeguard iMessage users' privacy with new protections that can defend against advances in quantum computing.

Our environmental work is another great example of how innovation and our values come together. As we work toward our goal of being carbon neutral across all of our products by 2030, we are proud of how we've been able to innovate and do more for our customers while taking less from the planet. Since 2015, Apple has cut our overall emissions by more than half, while revenue grew nearly 65% during that same time period. And we're now using more recycled materials in our products than ever before.

Earlier this spring, we launched our first-ever product to use 50% recycled materials with the new M3-powered MacBook Air. We're also investing in new solar and wind power in the U.S. and Europe, both to power our growing operations and our users' devices. And we're working with partners in India and the U.S. to replenish 100% of the water we use in places that need it most, with the goal of delivering billions of gallons of water benefits over the next 2 decades.

Through our Restore Fund, Apple has committed \$200 million to nature-based carbon removal projects. And last month, we welcomed 2 supplier partners as new investors who will together invest up to an additional \$80 million in the fund. Whether we're enriching lives of users across the globe or doing our part to be a force for good in the world, we do everything with a deep sense of purpose at Apple. And I'm proud of the impact we've already made at the halfway point in a year of unprecedented innovation. I couldn't be more excited for the future we have ahead of us, driven by the imagination and innovation of our teams and the enduring importance of our products and services in people's lives.

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

Luca Maestri

Apple Inc. - CFO & Senior VP

Thank you, Tim, and good afternoon, everyone. Revenue for the March quarter was \$90.8 billion, down 4% from last year. Foreign exchange had a negative year-over-year impact of 140 basis points on our results. Products revenue was \$66.9 billion, down 10% year-over-year due to the challenging compare on iPhone that Tim described earlier, which was partially offset by strength from Mac. And thanks to our unparalleled customer satisfaction and loyalty and a high number of customers who are new to our products, our installed base of active devices reached an all-time high across all products and all geographic segments.

Services revenue set an all-time record of \$23.9 billion, up 14% year-over-year with record performance in both developed and emerging markets. Company gross margin was 46.6%, up 70 basis points sequentially, driven by cost savings and favorable mix to Services partially offset by leverage. Products gross margin was 36.6%, down 280 basis points sequentially, primarily driven by seasonal loss of leverage and mix, partially offset by favorable costs. Services gross margin was 74.6%, up 180 basis points from last quarter due to a more favorable mix. Operating expenses of \$14.4 billion were at the midpoint of the guidance range we provided and up 5% year-over-year. Net income was \$23.6 billion. Diluted EPS was \$1.53 and a March quarter record. And operating cash flow was strong at \$22.7 billion.

Let me now provide more detail for each of our revenue categories. iPhone revenue was \$46 billion, down 10% year-over-year due to the almost \$5 billion impact from a year ago that Tim described earlier. Adjusting for this

onetime impact, iPhone revenue would be roughly flat to last year. Our iPhone active installed base grew to a new all-time high in total and in every geographic segment. And during the March quarter, we saw many iPhone models as the top-selling smartphones around the world. In fact, according to a survey from Kantar, an iPhone was the top-selling model in the U.S., urban China, Australia, the U.K., France, Germany and Japan. And the iPhone 15 family continues to be very popular with customers. 451 Research recently measured customer satisfaction at 99% in the U.S.

Mac revenue was \$7.5 billion, up 4% year-over-year, driven by the strength of our new MacBook Air powered by the M3 chip. Customers are loving the incredible AI performance of the latest MacBook Air and MacBook Pro models. And our Mac installed base reached an all-time high with half of our MacBook Air buyers during the quarter being new to Mac. Also, customer satisfaction for Mac was recently reported at 96% in the U.S.

iPad generated \$5.6 billion in revenue, down 17% year-over-year. iPad continued to face a challenging compare against the launch of the M2 iPad Pro and iPad 10th generation from last year. At the same time, the iPad installed base has continued to grow and is at an all-time high, as over half of the customers who purchased iPads during the quarter were new to the product. In addition, the latest report from 451 Research indicated customer satisfaction of 96% for iPad in the U.S.

Wearables, Home and Accessories revenue was \$7.9 billion, down 10% year-over-year due to a difficult launch compare. Last year, we had the continued benefit from the launches of the AirPods Pro second generation, the Watch SE and the first Watch Ultra. Apple Watch continues to attract new customers with almost 2/3 of customers purchasing an Apple Watch during the quarter being new to the product, sending the Apple Watch installed base to a new all-time high. And customer satisfaction was recently measured at 95% in the U.S.

In Services, as I mentioned, total revenue reached an all-time record of \$23.9 billion, growing 14% year-over-year with our installed base of active devices continuing to grow at a nice pace. This provides a strong foundation for the future growth of the services business as we continue to see increased customer engagement with our ecosystem.

Both transacting accounts and paid accounts reached a new all-time high, with paid accounts growing double digits year-over-year. And paid subscriptions showed strong double-digit growth. We have well over 1 billion paid subscriptions across the services on our platform, more than double the number that we had only 4 years ago. We continue to improve the breadth and quality of our current services from creating new games on Arcade and great new shows on TV+ to launching additional countries and partners for Apple Pay.

Turning to enterprise. Our customers continue to invest in Apple products to drive productivity and innovation. We see more and more enterprise customers embracing the MAC. In health care, Epic Systems, the world's largest electronic medical record provider, recently launched its native app for the Mac, making it easier for health care organizations like Emory Health to transition thousands of PCs to the Mac for clinical use.

And since the launch of Vision Pro last quarter, many leading enterprise customers have been investing in this amazing new product to bring spatial computing apps and experiences to life. We are seeing so many compelling use cases from aircraft engine maintenance training at KLM Airlines to real-time team collaboration for racing a Porsche to immersive kitchen design at Lowe's. We couldn't be more excited about the special computing opportunity in enterprise.

Taking a quick step back. When we look at our performance during the first half of our fiscal year, total company revenue was roughly flat to the prior year in spite of having one less week of sales during the period and some foreign exchange headwinds. We were particularly pleased with our strong momentum in emerging markets. As we said, first half revenue records in several countries and regions, including Latin America, the Middle East, India, Indonesia, the Philippines and Turkey. These results, coupled with double-digit growth in Services and strong levels of gross margin, drove a first half diluted EPS record of \$3.71, up 9% from last year.

Let me now turn to our cash position and capital return program. We ended the quarter with \$162 billion in cash

and marketable securities. We repaid \$3.2 billion in maturing debt, and commercial paper was unchanged sequentially, leaving us with total debt of \$105 billion. As a result, net cash was \$58 billion at the end of the quarter. During the quarter, we returned over \$27 billion to shareholders, including \$3.7 billion in dividends and equivalents and \$23.5 billion through open market repurchases of 130 million Apple shares.

Given the continued confidence we have in our business now and into the future, our Board has authorized today an additional \$110 billion for share repurchases as we maintain our goal of getting to net cash neutral over time. We're also raising our dividend by 4% to \$0.25 per share of common stock, and we continue to plan for annual increases in the dividend going forward as we've done for the last 12 years. This cash dividend will be payable on May 16, 2024, to shareholders of record as of May 13, 2024.

As we move ahead into the June quarter, I'd like to review our outlook, which includes the types of forward-looking information that Suhasini referred to at the beginning of the call. The color we are providing today assumes that the macroeconomic outlook doesn't worsen from what we are projecting today for the current quarter. We expect our June quarter total company revenue to grow low single digits year-over-year in spite of a foreign exchange headwind of about 2.5 percentage points. We expect our Services business to grow double digits at a rate similar to the growth we reported for the first half of the fiscal year. And we expect iPad revenue to grow double digits.

We expect gross margin to be between 45.5% and 46.5%. We expect OpEx to be between \$14.3 billion and \$14.5 billion. We expect OI&E to be around \$50 million, excluding any potential impact from the mark to market of minority investments, and our tax rate to be around 16%.

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

Suhasini Chandramouli
Apple Inc. - Director of IR

Thank you, Luca. (Operator Instructions) Operator, may we have the first question, please?

Questions & Answers

Operator

We will go ahead and take our first question from Mike Ng with Goldman Sachs.

Michael Ng
Goldman Sachs Group, Inc., Research Division - Research Analyst

I have 2. First, I'll ask about the June quarter guidance, the revenue outlook for low single digits growth. I was wondering if you could run through some of the product assumptions. iPhone, like what kind of gives you confidence around that? And then on the Services momentum, what was better than expected in the quarter? And then I just have a quick follow-up.

Luca Maestri
Apple Inc. - CFO & Senior VP

Mike, it's Luca. On the outlook, what we said is we expect to grow low single digits in total for the company. We expect Services to grow double digits at a rate that is similar to what we've done in the first half of our fiscal year. And we also mentioned that iPad should grow double digits. This is the color that we're providing for the June quarter.

In Services, we've seen very strong performance across the board. We've mentioned we've had records in several categories, in several geographic segments. It's very broad-based. Our subscription business is going well. Transacting accounts and paid accounts are growing. Paid accounts are growing double digits. And also, we've

seen a really strong performance both in developed and emerging markets, so very pleased with the way the Services business is going.

Michael Ng

Goldman Sachs Group, Inc., Research Division - Research Analyst

Great. And I wanted to ask about, as Apple leans more into AI and generative AI, should we expect any changes to the historical CapEx cadence that we've seen in the last few years of about \$10 billion to \$11 billion per year? Or any changes to how we may have historically thought about the split between tooling, data center, and facilities?

Luca Maestri

Apple Inc. - CFO & Senior VP

Yes. We are obviously very excited about the opportunity with GenAI. We obviously are pushing very hard on innovation on every front, and we've been doing that for many, many years. Just during the last 5 years, we spent more than \$100 billion in research and development.

As you know, on the CapEx front, we have a bit of a hybrid model where we make some of the investments ourselves. In other cases, we share them with our suppliers and partners. On the manufacturing side, we purchase some of the tools and manufacturing equipment. In some of the cases, our suppliers make the investment.

And we do something similar on the data center side. We have our own data center capacity and then we use capacity from third parties. It's a model that has worked well for us historically, and we plan to continue along the same lines going forward.

Operator

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

Wamsi Mohan

BofA Securities, Research Division - MD in Americas Equity Research

Tim, can you talk about the implications to Apple from the changes driven by EU DMA? You've had to open up third-party app stores. Clearly, this poses some security risks on the one hand, which can dilute the experience but also lower payments from developers to Apple. What are you seeing developers choose in these early days and consumers choose in terms of these third-party app stores? And I have a follow-up.

Timothy D. Cook

Apple Inc. - CEO & Director

It's really too early to answer the question. We just implemented in March, as you probably know, in the European Union, the alternate app stores and alternate billing, et cetera. So we're focused on complying while mitigating the impacts to user privacy and security that you mentioned. And so that's our focus.

Wamsi Mohan

BofA Securities, Research Division - MD in Americas Equity Research

Okay. And Luca, I was wondering if you could comment a bit on the product gross margins, the sequential step down. You noted mix and leverage. Any more color on the mix, if you could share if customers are at all starting to mix down across product lines? Or is this more a mix across product lines? Just trying to get some color on customer behavior given some of the broader inflationary pressures.

Luca Maestri

Apple Inc. - CFO & Senior VP

On a sequential basis, yes, we were down. It's primarily the fact that we had a slightly different mix of products than the previous one. Obviously, leverage plays a big role as we move from the holiday quarter into the -- into a more typical quarter. So I would say, primarily leverage and a different mix of products. I mean we haven't seen anything different in terms -- within the product categories, we haven't seen anything particular.

Operator

Our next question is from Erik Woodring with Morgan Stanley.

Erik William Richard Woodring

Morgan Stanley, Research Division - Executive Director & Equity Analyst

Maybe my first one, Tim, you've obviously mentioned your excitement around generative AI multiple times. I'm just curious how Apple is thinking about the different ways in which you can monetize this technology because, historically, software upgrades haven't been a big factor in driving product cycles. And so could AI be potentially different? How could that impact replacement cycles? Is there any services angle you'd be thinking? Any early color that you can share on that? And then I have a follow-up, please.

Timothy D. Cook

Apple Inc. - CEO & Director

I don't want to get in front of our announcements obviously. I would just say that we see generative AI as a very key opportunity across our products, and we believe that we have advantages that set us apart there. And we'll be talking more about it in -- as we go through the weeks ahead.

Erik William Richard Woodring

Morgan Stanley, Research Division - Executive Director & Equity Analyst

Okay. Very fair. And then, Luca, maybe to just follow up on Wamsi's comments or question, there's a broad concern about the headwind that rising commodity costs have on your product gross margins. Wondering if you could just clarify for us, if we take a step back and look at all of the components and commodities that go into your products kind of collectively, are you seeing these costs rising? Are they falling? What tools do you have to try to help mitigate some rising costs if at all -- rising input costs if at all?

Luca Maestri

Apple Inc. - CFO & Senior VP

Yes. I mean, during the last quarter, commodity costs and in general, component costs have behaved favorably to us. On the memory front, prices are starting to go up. They've gone up slightly during the March quarter. But in general, I think it's been a period, not only this quarter but the last several quarters, where commodities have behaved well for us.

Commodities go in cycles, and so there's obviously always that possibility. Keep in mind that we are starting from a very high level of gross margins. We reported 46.6%, which is something that we haven't seen in our company in decades. And so we're starting from a good point. As you know, we try to buy ahead when the cycles are favorable to us. So we would try to mitigate if there are headwinds, but in general, we feel, particularly for this cycle, we are in good shape.

Operator

Our next question is from Ben Reitzes with Melius.

Benjamin Alexander Reitzes

Melius Research LLC - MD & Head of Technology Research

Tim, I was wondering if I could ask the China question again. Is there any more color from your visit there that gives you confidence that you've reached the bottom there and that it's turning? I know you've been -- you've continued to be confident there in the long term. Just wondering if there was any color as to when you think the tide turns there. And I have a follow-up.

Timothy D. Cook
Apple Inc. - CEO & Director

Ben, if you look at our results in Q2 for Greater China, we were down 8. That's an acceleration from the previous quarter in Q1. And the primary driver of the acceleration was iPhone. And if you then look at iPhone within Mainland China, we grew on a reported basis. That's before any kind of normalization for the supply disruption that we mentioned earlier.

And if you look at the top-selling smartphones, the top 2 in urban China are iPhones. And while I was there, it was a great visit, and we opened a new store in Shanghai and the reception was very warm and highly energetic. And so I left there having a fantastic trip and enjoyed being there. And so I maintain a great view of China in the long term. I don't know how each and every quarter goes and each and every week, but over the long haul, I have a very positive viewpoint.

Benjamin Alexander Reitzes
Melius Research LLC - MD & Head of Technology Research

Okay. And then my follow-up, I want to ask this carefully, though. It's -- there's a fear out there that you may lose some traffic acquisition revenue. And I was wondering if you thought AI, from a big picture -- and it doesn't have to be on a long-term basis, I mean, from a big picture, if AI is an opportunity for you to continue to monetize your mobile real estate, just how you -- how maybe investors can think about that from a big picture just given that's been one of the concerns. That's potentially been an overhang, of course, due to a lot of the news in the media around some of the legal cases. And I was wondering if there's just a big picture color you could give that makes us kind of think about it better and your ability to sort of continue to monetize that real estate.

Timothy D. Cook
Apple Inc. - CEO & Director

I think AI, generative AI and AI both are big opportunities for us across our products. And we'll talk more about it in the coming weeks. But I think there are numerous ways there that are great for us, and we think that we're well positioned.

Operator

Our next question is from Krish Sankar with TD Cowen.

Krish Sankar
TD Cowen, Research Division - MD & Senior Research Analyst

Again, sorry to beat the AI horse, but Tim, I know you don't want to like reveal a lot. But I'm just kind of curious because last quarter, you spoke about how you're getting traction in enterprise. Is the AI strategy going to be both consumer and enterprise? Or is it going to be 1/2 or the other? Any color would be helpful. And then I have a follow-up for Luca.

Timothy D. Cook
Apple Inc. - CEO & Director

Our focus on enterprise has been in, through the quarter and the quarters that preceded it, on selling iPhones and iPads and Macs. And we recently added Vision Pro to that, and we're thrilled with what we see there in terms of interest from big companies buying some to explore ways they can use it. And so I see enormous opportunity in

the enterprise. I wouldn't want to cabin that to AI only. I think there's a great opportunity for us around the world in enterprise.

Krish Sankar

TD Cowen, Research Division - MD & Senior Research Analyst

Got it. Very helpful. And then for Luca, I'm kind of curious on -- given the macro environment, on the hardware side, are you seeing a bias towards like standard iPhone versus the Pro model? The reason I'm asking the question is that there's a weaker consumer spending environment, yet your Services business is still growing and has amazing growth margins. So I'm just trying to like square the circle over there.

Luca Maestri

Apple Inc. - CFO & Senior VP

I'm not sure I fully understand the question. But in general, what we are seeing on the product side, we continue to see a lot of interest at the top of the range of our products. And I think it's a combination of consumers wanting to purchase the best product that we offer in the different categories and our ability to make those purchases more affordable over time.

We've introduced several financing solutions from installment plans to trade-in programs that reduce the affordability threshold and therefore, customers tend to buy -- want to buy at the top of the range. That is very valuable for us in developed markets but particularly in emerging markets where the affordability issues are more pronounced. But in general, over the last several years -- and that is also reflected in our gross margins. Over the last several years, we've seen this trend, which we think is pretty sustainable.

Operator

Our next question is from Amit Daryanani with Evercore.

Amit Jawaharlaz Daryanani

Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst

I have 2 as well. I guess first off on capital allocation. You folks have about \$58 billion of net cash right now. As you think about eventually getting to this net cash neutral target, do you think, at some point, Apple would be open to taking on leverage on the balance sheet and continuing the buyback program? Or is it more like once you get to this neutral position, it's going to be about returning free cash flow back to shareholders? I'm just wondering, how do you think about leverage on your balance sheet over time? And what sort of leverage do you think you'd be comfortable taking on?

Luca Maestri

Apple Inc. - CFO & Senior VP

Amit, this is Luca. I would say one step at a time. We have put out this target of getting to net cash neutral several years ago, and we're working very hard to get there. Our free cash flow generation has been very strong over the years, particularly the last few years. And so as you've seen this year, we've increased the amount that we're allocating to the buyback.

For the last couple of years, we were doing \$90 billion. Now we're doing \$110 billion. So let's get there first. It's going to take a while still. And then when we are there, we're going to reassess and see what is the optimal capital structure for the company at that point in time. Obviously, there's going to be a number of considerations that we will need to look at when we get there.

Amit Jawaharlaz Daryanani

Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst

Fair enough. I figured it's worth trying anyway. If I go back to this China discussion a bit, and Tim, I think your comments around growth in iPhones in Mainland China is really notable. Could you step back? I mean these numbers are still declining, at least Greater China, on a year-over-year basis in aggregate. Maybe just talk about what are you seeing from a macro basis in China. And then at least the annual decline -- or year-over-year decline that we're seeing, do you think it's more macro driven or more competitive driven over there? That would be helpful.

Timothy D. Cook
Apple Inc. - CEO & Director

Yes, I can only tell you what we're seeing. And so I don't want to present myself as an economist, so I'll steer clear of that. From -- what we saw was an acceleration from Q1, and it was driven by iPhone, and iPhone in Mainland China, before we adjust for this \$5 billion impact that we talked about earlier, did grow. That means the other products didn't fare as well, and so we clearly have work there to do.

I think it has been and is, through last quarter, the most competitive market in the world. And I -- so I wouldn't say anything other than that. I've said that before and I believe that it was last quarter as well. And -- but if you step back from the 90-day cycle, what I see is a lot of people moving into the middle class. We try to serve customers very well there and have a lot of happy customers. And you can kind of see that in the latest store opening over there. And so I continue to feel very optimistic.

Operator

Our next question is from David Vogt with UBS.

David Vogt
UBS Investment Bank, Research Division - Analyst

I'm going to roll the 2 together, so you guys have them both. So Luca, obviously, I'm trying to parse through the outlook for the June quarter. And just based on the quick math, it looks like, all things being equal given what you said, the iPhone business is going to be down mid-single digits again in the June quarter. And if that's the case, and maybe this is for Tim, obviously, how are you thinking about the competitive landscape in the context of what you just said maybe outside of China?

And what changes sort of the consumer demand or receptivity to new devices because we've been in this malaise for a while? Is it really this AI initiative that a lot of companies are pursuing? And do you think that changes sort of the demand drivers going forward? Or is it just really more of a timing issue in terms of the replacement cycle is a little bit long in the tooth and we see a bit of an upgrade cycle at some point maybe later this year into next year?

Timothy D. Cook
Apple Inc. - CEO & Director

I do see a key opportunity, as I'd mentioned before, with generative AI, with all of our devices or the vast majority of our devices. And so I think that if you look out, that's not within the next quarter or so, and we don't guide at the product level, but I'm extremely optimistic. And so that's kind of how I view it. In terms of -- I'll let Luca comment on the outlook portion of it. I think if you step back on iPhone, though, and you make this adjustment from the previous year, our Q2 results would be flattish on iPhone. And so that's how we performed in Q2.

Luca Maestri
Apple Inc. - CFO & Senior VP

Yes, David, on the outlook, I'll only repeat what we said before, and this is the color that we're providing for the quarter. We do expect to grow in total low single digits. We do expect services to grow double digits, and we

expect iPad to grow double digits. For the rest, I'll let you make assumptions, and then we will report 3 months from now.

Operator

Our next question is from Samik Chatterjee with JPMorgan.

Samik Chatterjee

JPMorgan Chase & Co, Research Division - Head of IT Hardware and Networking Equipment

I have a couple as well. Maybe for the first one, your Services growth accelerated from 11% growth to 14%. If you can sort of dig into the drivers of where or which parts of services did you really see that acceleration and why is it a bit more sustainable as we think about the next quarter? Because I believe you're guiding more to sort of averaging out the first half of the year for the next quarter. So just curious what were the drivers. And why not have it a bit more sustainably sort of improve as we go through the remainder of the year? I have a quick follow-up.

Luca Maestri

Apple Inc. - CFO & Senior VP

So a number of things on Services. First of all, the overall performance was very strong. As I said earlier, all-time records in both developed and emerging markets, so we see our Services do well across the world. Records in many of our Services categories, there are some categories that are growing very fast also because they are relatively smaller in the scheme of our Services business like cloud, video, payment services. Those all set all-time revenue records. So we feel very good about the progress that we're making in Services.

As we go forward, I'll just point out that if you look at our growth rates a year ago, they improved during the course of the fiscal year last year. So the comps for the Services business become a bit more challenging as we go through the year. But in general, as I mentioned, we still expect to grow double digits in the June quarter at a rate that is very similar to what we've done in the first half.

Samik Chatterjee

JPMorgan Chase & Co, Research Division - Head of IT Hardware and Networking Equipment

Got it. Got it. And for my follow-up, if I can ask you more specifically about the India market. Obviously, you continue to make new records in terms of revenue in that market. How much of the momentum you're seeing would you associate with your sort of retail strategy in that market, retail expansion relative to maybe some of the supply change or the manufacturing changes or strategy you've undergone or taken in that market itself? Any thoughts around that would be helpful.

Timothy D. Cook

Apple Inc. - CEO & Director

Sure. We did grow strong double digit, and so we were very, very pleased with that. It was a new March quarter revenue record for us. As I've said before, I see it as an incredibly exciting market and it's a major focus for us. In terms of the operational side or supply chain side, we are producing there.

From a pragmatic point of view, you need to produce there to be competitive. And so yes, there -- the 2 things are linked from that point of view. But we have both operational things going on, and we have go to market and initiatives going on. We just opened a couple of stores as -- last year, as you know, and we see enormous opportunity there. We're continuing to expand our channels and also working on the developer ecosystem as well. And we've been very pleased that there's a rapidly growing base of developers there. And so we're working all of the entire ecosystem from developer to the market to operations, the whole thing. And I just -- I could not be more excited and enthusiastic about it.

Operator

Our next question is from Aaron Rakers with Wells Fargo.

Aaron Christopher Rakers

Wells Fargo Securities, LLC, Research Division - MD of IT Hardware & Networking Equipment and Senior Equity Analyst

And I think I have 2 as well like everybody else. I guess I'm going to go back to the China question. I guess at a high level, the simple question is when we look at the data points that have been repeatedly reported throughout the course of this quarter, I'm curious, Tim, what are we missing? Like where do you think people are missing Apple's iPhone traction within the China market just at a high level given the data points that were reported throughout this course of last quarter?

Timothy D. Cook

Apple Inc. - CEO & Director

I can't address the data points. I could only address what our results are. And we did accelerate last quarter and the iPhone grew in Mainland China. So that's what the results were. I can't bridge to numbers we didn't come up with.

Aaron Christopher Rakers

Wells Fargo Securities, LLC, Research Division - MD of IT Hardware & Networking Equipment and Senior Equity Analyst

Okay. And then as a quick follow-up. I know you guys haven't talked about this, quantified it in quite some time, but I'm curious to how we would characterize the channel inventory dynamics for iPhone.

Timothy D. Cook

Apple Inc. - CEO & Director

Sure. The -- for the March quarter, we decreased channel inventory during the quarter. We usually decrease channel inventory during the Q2 time frame, so that's not unusual. And we're very comfortable with the overall channel inventory.

Operator

Our next question is from Richard Kramer with Arete Research.

Richard Alan Kramer

Arete Research Services LLP - Founder, MD & Senior Analyst

I'm not going to ask about China, but you regularly call out all the rapid growth in many other emerging markets. So is Apple approaching a point where all those other emerging markets in aggregate might cross over to become larger than your current \$70 billion Greater China segments? And maybe investors could look at that for driving growth for the wider business. And I have a follow-up for Luca.

Luca Maestri

Apple Inc. - CFO & Senior VP

I think, Richard, you're asking a really interesting question. We were looking at something similar recently. Obviously, China is by far the largest emerging market that we have. But when we start looking at places like India, like Saudi, like Mexico, Turkey, of course, Brazil and Mexico and Indonesia, the numbers are getting large and we're very happy because these are markets where our market share is low. The populations are large and growing, and our products are really making a lot of progress with -- in those markets.

The level of excitement for the brand is very high. Tim was in Southeast Asia recently, and the level of excitement is incredibly high. So it is very good for us. And then -- and certainly, the numbers are getting larger

all the time, and so the gap, as you compare it to the numbers in China, is reducing. And hopefully, that trajectory continues for a long time.

Richard Alan Kramer

Arete Research Services LLP - Founder, MD & Senior Analyst

Okay. And then as a follow-up maybe for either of you, I mean, you're coming up on 4 years from what was an incredibly popular iPhone 12 cycle. And given you're struggling to reduce your net -- your -- reach your net neutral cash position and your margins are sort of near highs, do you see ways to deploy capital more to spur replacement demand in your installed base, either with greater device financing, more investment in marketing, more promotions? I mean do you feel like you need to produce those sort of margins? Or is it more important to spur growth with replacement?

Timothy D. Cook

Apple Inc. - CEO & Director

I think innovation spurs the upgrade cycle and as one thing, of course, there's economic factors as well that play in there and what kind of offerings there are from our carrier partners and so forth. And so there's a number of variables in there. But we work all of those, and we price our products for the value that we're delivering. And so that's how we look at it.

Luca Maestri

Apple Inc. - CFO & Senior VP

And if I can add to Tim's comments, Richard, one of the things that when you look over the long arc of time that maybe is not fully understood is that we've gone through a long period of very strong dollar. And what that means, given that our company sells more than 60% of our revenues outside the United States, the demand for our products in those markets is stronger than the results that we report just because of the translation of those local currencies into dollars, right?

And so that is something to keep in mind as you look at our results, right? And so we are making all the investments that are needed, and Tim has talked about innovation. Obviously, we made a lot of progress with financing solutions, with trading programs and so on, and we will continue to make all those investments.

Operator

Our next question is from Atif Malik with Citi.

Atif Malik

Citigroup Inc., Research Division - Director and Semiconductor Capital Equipment & Specialty Semiconductor Analyst

I have 2 questions as well. First, for Tim, for enterprise specifically, what are some of the top 2 or 3 use cases on Vision Pro you're hearing most excitement? And then I have a follow-up for Luca.

Timothy D. Cook

Apple Inc. - CEO & Director

Yes, the great thing is I'm hearing about so many of them. I wouldn't say that one has emerged as the top right now. The most impressive thing is that similar to the way people use a Mac, you use it for everything. People are using it for many different things in enterprise, and that varies from field service to training to health-care-related things like preparing a doctor for pre-op surgery or advanced imaging. And so it -- commands control centers.

And so it's an enormous number of different verticals. And our focus is on -- is growing that ecosystem and getting more apps and more and more enterprises engaged. And the event that we had recently, I can't overstate the enthusiasm in the room. It was extraordinary. And so we're off to a good start, I think, with enterprise.

Atif Malik

Citigroup Inc., Research Division - Director and Semiconductor Capital Equipment & Specialty Semiconductor Analyst

Great. And then, Luca, I believe you mentioned that for the March quarter, the commodity pricing environment was favorable. Can you talk about what you're assuming for commodity pricing on memory, et cetera, for the June quarter and maybe for the full year?

Luca Maestri

Apple Inc. - CFO & Senior VP

Yes. We provide guidance just for the current quarter, so I'll tell you about the guidance. We're guiding to -- again, to a very high level of gross margins, 45.5% to 46.5%. Within that guidance, we expect memory to be a slight headwind, not a very large one but a slight headwind. And the same applies for foreign exchange. Foreign exchange will have a negative impact sequentially of about 30 basis points.

Suhasini Chandramouli

Apple Inc. - Director of IR

A replay of today's call will be available for 2 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 0467138 followed by the pound sign. These replays will be available by approximately 5 p.m. Pacific Time today.

Members of the press with additional questions can contact Josh Rosenstock at (408) 862-1142, and financial analysts can contact me, Suhasini Chandramouli, with additional questions at (408) 974-3123. Thank you again for joining us.

Operator

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

Call Participants

Corporate Participants

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Suhasini Chandramouli, Apple Inc. - Director of IR

Timothy D. Cook, Apple Inc. - CEO & Director

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