Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements and accompanying notes included in Part II, Item 8 of this Form 10-K. This Item generally discusses 2024 and 2023 items and year-to-year comparisons between 2024 and 2023. Discussions of 2022 items and year-to-year comparisons between 2023 and 2022 are not included, and can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2023.

Product, Service and Software Announcements

The Company announces new product, service and software offerings at various times during the year. Significant announcements during fiscal year 2024 included the following:

First Quarter 2024:

- MacBook Pro 14-in.;
- MacBook Pro 16-in.; and
- iMac.

Second Quarter 2024:

- MacBook Air 13-in.; and
- MacBook Air 15-in.

Third Quarter 2024:

- iPad Air;
- iPad Pro;
- iOS 18, macOS Sequoia, iPadOS 18, watchOS 11, visionOS 2 and tvOS 18, updates to the Company's operating systems; and
- Apple Intelligence™, a personal intelligence system that uses generative models.

Fourth Quarter 2024:

- iPhone 16, iPhone 16 Plus, iPhone 16 Pro and iPhone 16 Pro Max;
- Apple Watch Series 10; and
- AirPods 4.

Fiscal Period

The Company's fiscal year is the 52- or 53-week period that ends on the last Saturday of September. An additional week is included in the first fiscal quarter every five or six years to realign the Company's fiscal quarters with calendar quarters, which occurred in the first quarter of 2023. The Company's fiscal years 2024 and 2022 spanned 52 weeks each, whereas fiscal year 2023 spanned 53 weeks.

Macroeconomic Conditions

Macroeconomic conditions, including inflation, interest rates and currency fluctuations, have directly and indirectly impacted, and could in the future materially impact, the Company's results of operations and financial condition.

Segment Operating Performance

The following table shows net sales by reportable segment for 2024, 2023 and 2022 (dollars in millions):

	2024	Change	2023	Change	2022
Americas	$ 167,045	3 %	$ 162,560	(4)%	$ 169,658
Europe	101,328	7 %	94,294	(1)%	95,118
Greater China	66,952	(8)%	72,559	(2)%	74,200
Japan	25,052	3 %	24,257	(7)%	25,977
Rest of Asia Pacific	30,658	4 %	29,615	1 %	29,375
Total net sales	$ 391,035	2 %	$ 383,285	(3)%	$ 394,328

Americas

Americas net sales increased during 2024 compared to 2023 due primarily to higher net sales of Services.

Europe

Europe net sales increased during 2024 compared to 2023 due primarily to higher net sales of Services and iPhone.

Greater China

Greater China net sales decreased during 2024 compared to 2023 due primarily to lower net sales of iPhone and iPad. The weakness in the renminbi relative to the U.S. dollar had an unfavorable year-over-year impact on Greater China net sales during 2024.

Japan

Japan net sales increased during 2024 compared to 2023 due primarily to higher net sales of iPhone. The weakness in the yen relative to the U.S. dollar had an unfavorable year-over-year impact on Japan net sales during 2024.

Rest of Asia Pacific

Rest of Asia Pacific net sales increased during 2024 compared to 2023 due primarily to higher net sales of Services. The weakness in foreign currencies relative to the U.S. dollar had a net unfavorable year-over-year impact on Rest of Asia Pacific net sales during 2024.

Products and Services Performance

The following table shows net sales by category for 2024, 2023 and 2022 (dollars in millions):

	2024	Change	2023	Change	2022
iPhone	$ 201,183	— %	$ 200,583	(2)%	$ 205,489
Mac	29,984	2 %	29,357	(27)%	40,177
iPad	26,694	(6)%	28,300	(3)%	29,292
Wearables, Home and Accessories	37,005	(7)%	39,845	(3)%	41,241
Services [1]	96,169	13 %	85,200	9 %	78,129
Total net sales	$ 391,035	2 %	$ 383,285	(3)%	$ 394,328

(1) Services net sales include amortization of the deferred value of services bundled in the sales price of certain products.

iPhone

iPhone net sales were relatively flat during 2024 compared to 2023.

Mac

Mac net sales increased during 2024 compared to 2023 due primarily to higher net sales of laptops.

iPad

iPad net sales decreased during 2024 compared to 2023 due primarily to lower net sales of iPad Pro and the entry-level iPad models, partially offset by higher net sales of iPad Air.

Wearables, Home and Accessories

Wearables, Home and Accessories net sales decreased during 2024 compared to 2023 due primarily to lower net sales of Wearables and Accessories.

Services

Services net sales increased during 2024 compared to 2023 due primarily to higher net sales from advertising, the App Store® and cloud services.

Gross Margin

Products and Services gross margin and gross margin percentage for 2024, 2023 and 2022 were as follows (dollars in millions):

	2024	2023	2022
Gross margin:			
Products	$ 109,633	$ 108,803	$ 114,728
Services	71,050	60,345	56,054
Total gross margin	$ 180,683	$ 169,148	$ 170,782
Gross margin percentage:			
Products	37.2%	36.5%	36.3%
Services	73.9%	70.8%	71.7%
Total gross margin percentage	46.2%	44.1%	43.3%

Products Gross Margin

Products gross margin and Products gross margin percentage increased during 2024 compared to 2023 due to cost savings, partially offset by a different Products mix and the weakness in foreign currencies relative to the U.S. dollar.

Services Gross Margin

Services gross margin increased during 2024 compared to 2023 due primarily to higher Services net sales.

Services gross margin percentage increased during 2024 compared to 2023 due to a different Services mix.

The Company's future gross margins can be impacted by a variety of factors, as discussed in Part I, Item 1A of this Form 10-K under the heading "Risk Factors." As a result, the Company believes, in general, gross margins will be subject to volatility and downward pressure.

Operating Expenses

Operating expenses for 2024, 2023 and 2022 were as follows (dollars in millions):

	2024	Change	2023	Change	2022
Research and development	$ 31,370	5 %	$ 29,915	14 %	$ 26,251
Percentage of total net sales	8%		8%		7%
Selling, general and administrative	$ 26,097	5 %	$ 24,932	(1)%	$ 25,094
Percentage of total net sales	7%		7%		6%
Total operating expenses	$ 57,467	5 %	$ 54,847	7 %	$ 51,345
Percentage of total net sales	15%		14%		13%

Research and Development

The growth in R&D expense during 2024 compared to 2023 was driven primarily by increases in headcount-related expenses.

Selling, General and Administrative

Selling, general and administrative expense increased $1.2 billion during 2024 compared to 2023.

Provision for Income Taxes

Provision for income taxes, effective tax rate and statutory federal income tax rate for 2024, 2023 and 2022 were as follows (dollars in millions):

	2024	2023	2022
Provision for income taxes	$ 29,749	$ 16,741	$ 19,300
Effective tax rate	24.1%	14.7%	16.2%
Statutory federal income tax rate	21%	21%	21%

The Company's effective tax rate for 2024 was higher than the statutory federal income tax rate due primarily to a one-time income tax charge of $10.2 billion, net, related to the State Aid Decision (refer to Note 7, "Income Taxes" in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K) and state income taxes, partially offset by a lower effective tax rate on foreign earnings, the impact of the U.S. federal R&D credit, and tax benefits from share-based compensation.

The Company's effective tax rate for 2024 was higher compared to 2023 due primarily to a one-time income tax charge of $10.2 billion, net, related to the State Aid Decision, a higher effective tax rate on foreign earnings and lower tax benefits from share-based compensation.

Liquidity and Capital Resources

The Company believes its balances of unrestricted cash, cash equivalents and marketable securities, which totaled $140.8 billion as of September 28, 2024, along with cash generated by ongoing operations and continued access to debt markets, will be sufficient to satisfy its cash requirements and capital return program over the next 12 months and beyond.

The Company's material cash requirements include the following contractual obligations:

Debt

As of September 28, 2024, the Company had outstanding fixed-rate notes with varying maturities for an aggregate principal amount of $97.3 billion (collectively the "Notes"), with $10.9 billion payable within 12 months. Future interest payments associated with the Notes total $38.5 billion, with $2.6 billion payable within 12 months.

The Company also issues unsecured short-term promissory notes pursuant to a commercial paper program. As of September 28, 2024, the Company had $10.0 billion of commercial paper outstanding, all of which was payable within 12 months.

Leases

The Company has lease arrangements for certain equipment and facilities, including corporate, data center, manufacturing and retail space. As of September 28, 2024, the Company had fixed lease payment obligations of $15.6 billion, with $2.0 billion payable within 12 months.

Manufacturing Purchase Obligations

The Company utilizes several outsourcing partners to manufacture subassemblies for the Company's products and to perform final assembly and testing of finished products. The Company also obtains individual components for its products from a wide variety of individual suppliers. As of September 28, 2024, the Company had manufacturing purchase obligations of $53.0 billion, with $52.9 billion payable within 12 months.

Other Purchase Obligations

The Company's other purchase obligations primarily consist of noncancelable obligations to acquire capital assets, including assets related to product manufacturing, and noncancelable obligations related to supplier arrangements, licensed intellectual property and content, and distribution rights. As of September 28, 2024, the Company had other purchase obligations of $12.0 billion, with $4.1 billion payable within 12 months.

Deemed Repatriation Tax Payable

As of September 28, 2024, the balance of the deemed repatriation tax payable imposed by the U.S. Tax Cuts and Jobs Act of 2017 (the "TCJA") was $16.5 billion, with $7.2 billion expected to be paid within 12 months.

State Aid Decision Tax Payable

As of September 28, 2024, the Company had an obligation to pay €14.2 billion or $15.8 billion to Ireland in connection with the State Aid Decision, all of which was expected to be paid within 12 months. The funds necessary to settle the obligation were held in escrow as of September 28, 2024, and restricted from general use.

Capital Return Program

In addition to its contractual cash requirements, the Company has an authorized share repurchase program. The program does not obligate the Company to acquire a minimum amount of shares. As of September 28, 2024, the Company's quarterly cash dividend was $0.25 per share. The Company intends to increase its dividend on an annual basis, subject to declaration by the Board.

In May 2024, the Company announced a new share repurchase program of up to $110 billion and raised its quarterly dividend from $0.24 to $0.25 per share beginning in May 2024. During 2024, the Company repurchased $95.0 billion of its common stock and paid dividends and dividend equivalents of $15.2 billion.

Recent Accounting Pronouncements

Income Taxes

In December 2023, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures* ("ASU 2023-09"), which will require the Company to disclose specified additional information in its income tax rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold. ASU 2023-09 will also require the Company to disaggregate its income taxes paid disclosure by federal, state and foreign taxes, with further disaggregation required for significant individual jurisdictions. The Company will adopt ASU 2023-09 in its fourth quarter of 2026 using a prospective transition method.

Segment Reporting

In November 2023, the FASB issued ASU No. 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures* ("ASU 2023-07"), which will require the Company to disclose segment expenses that are significant and regularly provided to the Company's chief operating decision maker ("CODM"). In addition, ASU 2023-07 will require the Company to disclose the title and position of its CODM and how the CODM uses segment profit or loss information in assessing segment performance and deciding how to allocate resources. The Company will adopt ASU 2023-07 in its fourth quarter of 2025 using a retrospective transition method.

Critical Accounting Estimates

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles ("GAAP") and the Company's discussion and analysis of its financial condition and operating results require the Company's management to make judgments, assumptions and estimates that affect the amounts reported. Note 1, "Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K describes the significant accounting policies and methods used in the preparation of the Company's consolidated financial statements. Management bases its estimates on historical experience and on various other assumptions it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

Uncertain Tax Positions

The Company is subject to income taxes in the U.S. and numerous foreign jurisdictions. The evaluation of the Company's uncertain tax positions involves significant judgment in the interpretation and application of GAAP and complex domestic and international tax laws, including the TCJA and the allocation of international taxation rights between countries. Although management believes the Company's reserves are reasonable, no assurance can be given that the final outcome of these uncertainties will not be different from that reflected in the Company's reserves. Reserves are adjusted considering changing facts and circumstances, such as the closing of a tax examination. Resolution of these uncertainties in a manner inconsistent with management's expectations could have a material impact on the Company's financial condition and operating results.

Legal and Other Contingencies

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business, the outcomes of which are inherently uncertain. The Company records a liability when it is probable that a loss has been incurred and the amount is reasonably estimable, the determination of which requires significant judgment. Resolution of legal matters in a manner inconsistent with management's expectations could have a material impact on the Company's financial condition and operating results.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to economic risk from interest rates and foreign exchange rates. The Company uses various strategies to manage these risks; however, they may still impact the Company's consolidated financial statements.

Interest Rate Risk

The Company is primarily exposed to fluctuations in U.S. interest rates and their impact on the Company's investment portfolio and term debt. Increases in interest rates will negatively affect the fair value of the Company's investment portfolio and increase the interest expense on the Company's term debt. To protect against interest rate risk, the Company may use derivative instruments, offset interest rate–sensitive assets and liabilities, or control duration of the investment and term debt portfolios.

The following table sets forth potential impacts on the Company's investment portfolio and term debt, including the effects of any associated derivatives, that would result from a hypothetical increase in relevant interest rates as of September 28, 2024 and September 30, 2023 (dollars in millions):

Interest Rate Sensitive Instrument	Hypothetical Interest Rate Increase	Potential Impact	2024	2023
Investment portfolio	100 basis points, all tenors	Decline in fair value	$ 2,755	$ 3,089
Term debt	100 basis points, all tenors	Increase in annual interest expense	$ 139	$ 194

Foreign Exchange Rate Risk

The Company's exposure to foreign exchange rate risk relates primarily to the Company being a net receiver of currencies other than the U.S. dollar. Changes in exchange rates, and in particular a strengthening of the U.S. dollar, will negatively affect the Company's net sales and gross margins as expressed in U.S. dollars. Fluctuations in exchange rates may also affect the fair values of certain of the Company's assets and liabilities. To protect against foreign exchange rate risk, the Company may use derivative instruments, offset exposures, or adjust local currency pricing of its products and services. However, the Company may choose to not hedge certain foreign currency exposures for a variety of reasons, including accounting considerations or prohibitive cost.

The Company applied a value-at-risk ("VAR") model to its foreign currency derivative positions to assess the potential impact of fluctuations in exchange rates. The VAR model used a Monte Carlo simulation. The VAR is the maximum expected loss in fair value, for a given confidence interval, to the Company's foreign currency derivative positions due to adverse movements in rates. Based on the results of the model, the Company estimates, with 95% confidence, a maximum one-day loss in fair value of $538 million and $669 million as of September 28, 2024 and September 30, 2023, respectively. Changes in the Company's underlying foreign currency exposures, which were excluded from the assessment, generally offset changes in the fair values of the Company's foreign currency derivatives.