

AAPL Earnings Call – FY2025 Q4

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Suhasini Chandramouli

Good afternoon, and welcome to the Apple Q4 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, Kevan Parekh. 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-K for the year ended September 27, 2025 to be filed tomorrow and in other reports and filings we make with the SEC. Apple assumes no obligation to update any forward-looking statements, which speak only as of the date they are made. Additionally, today's discussion will refer to certain non-GAAP financial measures. You can find a reconciliation of these measures in our fourth quarter earnings release, which is available on our Investor Relations website. I'd now like to turn the call over to Tim for introductory remarks.

Timothy Cook

Thank you, Suhasini. Good afternoon, everyone, and thanks for joining the call. Today, Apple is proud to report \$102.5 billion in revenue, up 8% from a year ago and a September quarter record. Services achieved an all-time revenue record of \$28.8 billion, growing 15% from a year ago. EPS came in at \$1.85 setting a September quarter record. We grew in the vast majority of markets we track and had September quarter revenue records in dozens of markets, including the U.S., Canada, Latin America, Western Europe, the Middle East, Japan, Korea and South Asia. We also set a September quarter revenue record in emerging markets and an all-time revenue record in India. These results come at the close of an extraordinary year for Apple in which we achieved an all-time revenue record of \$416 billion for the fiscal year. We set all-time revenue records in emerging and developed markets. We set an all-time revenue record for iPhone. And in Services, we achieved all-time records across every geographic segment. These results reflect the tremendous customer enthusiasm for Apple products and services as well as our deep commitment to innovation. We are incredibly excited about the strength we're seeing across our products and services and we expect the December quarter's revenue to be the best ever for the company and the best ever for iPhone. We are heading into the holiday season with a truly remarkable lineup. That includes the biggest leap ever for iPhone, which has had a tremendous response from our users around the world. Our Apple Watch lineup is more capable than ever to giving users ways to take charge of their health like never before, through new features like hypertension notifications and sleep score. And the next level sound quality and active noise cancellation of AirPods Pro 3 are hitting all the right notes for our users. In October, we also broke new ground and power-efficient performance with the incomparably fast M5 chip, packed with neural accelerators in each GPU core to supercharge AI workflows. iPad Pro combines game-changing features in iPad OS 26 with the power of M5 to create our most capable iPad ever. At the same time, the M5 MacBook Pro raises the bar for what users can do with a laptop while the new M5 powered Apple Vision Pro opens up amazing possibilities on its infinite canvas. We also launched a beautiful new software design that creates a unified experience across all of our platforms for the very first time. The design is crafted with a new material called liquid glass that brings fluidity, vitality and flexibility to our products. Along with the new design, we delivered powerful new features to enable users to do even more with their devices. That includes updates to the phone and messages apps in iOS 26 to help users stay connected, continuity enhancements in Mac to deliver an even more seamless experience across devices and a powerful new windowing system that fundamentally transforms the user experience in iPad OS 26. As we continue to expand our investment in AI, we're bringing intelligence to more of what people already love about our products and services, making every experience even more personal, capable and effortless. At the heart of it all is Apple Silicon, and we were thrilled to launch new products powered by the A19 Pro chip and M5. These incredibly advanced chips make Apple products the very best place to experience the power of AI. With Apple Intelligence, we've introduced dozens of new features that are powerful, intuitive, private and deeply integrated into the things people do every day. Features like live translation, which help users communicate across languages in real time and visual intelligence, which opens new ways to learn about and explore the world. We also introduced Workout Buddy, a new experience that uses AI to provide personalized motivational insights based on a user's workout data and fitness history. And these joined so many others from cleanup and photos and new image creation tools to powerful writing tools, we're also seeing developers take advantage of our own device foundation models to create entirely new experiences for users around the world. We're also excited for our more personalized Siri. We're making good progress on it. And as we've shared, we expect to release it next year. Now let's take a closer look at the September quarter results across our lineup, starting with iPhone. iPhone set a revenue record for the September quarter at \$49 billion, up 6% from a year ago, with growth in the vast majority of markets we track despite supply constraints we faced on several iPhone 16 and iPhone 17 models given strong demand. Redesigned from the inside out and powered by the outstanding A19 Pro chip, the iPhone 17 Pro is by far the most powerful iPhone we've ever made, setting a whole new standard for the smartphone industry. The iPhone 17 Pro also offers our best camera system ever with an all-new ADEX telephoto camera and looks stunning with bold new finishes like COSMIC Orange. The iPhone Air introduces an incredibly breakthrough design and with a bigger and brighter display with promotion, the iPhone 17 is a fantastic upgrade packed with features users will love. In Mac, we had a strong September quarter with revenue of \$8.7 billion, up 13% year-over-year driven by the strength of the MacBook Air. The MacBook Air enables users to get things done easily on the world's most popular laptop. Mac mini users are loving how much performance is packed into our smallest Mac ever made while Mac Studio customers are pushing the envelope of what's possible with our most powerful Mac ever, and the latest 14-inch MacBook Pro unlocks incredible speed and next level performance with the all-new M5 chip, which delivers 3.5x faster AI performance than M4. Turning to iPad. Revenue was \$7 billion for the September quarter. Last month, we released 1 of the most attention grabbing software updates we've had in years with iPad OS 26 and we recently gave iPad users even more to love with the launch of the incredible M5 iPad Pro, which offers an incredible boost in AI performance. With an unmatched combination of power and versatility, the new iPad Pro makes every interaction delightful with its thin, light and portable design. In Wearables, Home and Accessories revenue was \$9 billion. As I mentioned earlier, we were excited to unlock new possibilities for users with the launch of our newest Apple Watch lineup, making the world's most popular watch even better. That includes Apple Watch Ultra 3 with the largest display ever in an Apple watch, improved battery life and emergency SOS via satellite. Apple Watch Series 11 brings our users the most comprehensive set of health features yet. And Apple Watch SC3 delivers advanced capabilities at an incredible value. AI and advanced machine learning are at the core of powerful health features like heart rate monitoring, fall detection, crash detection and more. With our latest Apple Watch lineup, we were proud to introduce hypertension notifications, developed using large-scale machine learning models. Hypertension is one of the leading risk factors for heart attack and stroke affecting more than 1 billion adults worldwide, and we expect to notify more than 1 million users of this life-threatening condition. We're also excited about sleep

score, a simple, intuitive way to help users better understand their sleep quality and discover ways to improve it. That's something I'm sure we can all benefit from. Meanwhile, AirPods Pro 3 have been a huge hit. You have to hear them to really understand just how remarkable they are. users and reviewers alike are praising their incredible sound quality and improved fit. They feature the world's best in-ear active noise cancellation, removing up to 2x as much noise as the previous generation. And with live translation powered by Apple Intelligence, AirPods deliver an incredibly new and exciting experience for users around the world. Turning to Services. As I mentioned earlier, revenue was \$28.8 billion for the September quarter, 15% higher year-over-year and an all-time record. We saw double-digit growth in both developed and emerging markets and set new all-time records across advertising, App Store, cloud services, Music, payment services and video. Apple TV celebrated a big night at this year's Emmy Awards with 22 wins. The studio led the night with 13 wins the most of any comedy series in Emmy's history. Severance topped all dramas with 8 wins, adding to the accolades for this landmark series. To date, Apple TV productions have now earned over 600 wins and 2,800 nominations in total, driven by powerful original storytelling. And we're excited for audiences to discover new productions like Pluribus and to catch returning favorites like slow horses and the morning show. And soon, Apple TV will be the destination for F1 fans across the U.S. on track Day, thanks to a new partnership with Formula One. F1 is one of the most exciting and fastest-growing sports in the world. And starting next year, Apple TV will be the place for subscribers to follow every twist and turn of the new season. And in addition, F1, the movie, one of the year's biggest blockbusters will be coming to Apple TV on December 12. During the September quarter, we also marked the 10-year anniversary of Apple News. Apple News provides access to front page news from all around the world, putting hundreds of publications right at users' fingertips. Turning to retail. We're heading into our busiest time of year with our best ever lineup. In the last few months, we've opened new stores in emerging markets like India and the UAE and new locations in the U.S. and China. I was also in Tokyo last month for the opening of the redesigned and reimagined Apple Ginza store and the energy among the crowd was truly remarkable. When it originally opened, it was our first store outside the United States, and so it was especially meaningful to come back to welcome customers to the beautiful new space. Everywhere we operate, and in everything we do, we strive to give the best to our users while living by our values, whether that's building new accessibility features into our most recent software releases or advancing our environmental work by using even more recycled materials in our latest lineup or providing free educational programming to train and support American businesses with our new Apple Manufacturing Academy in Detroit. And we're continuing to invest in innovation and user experiences that will transform our future. A great example is the work we're doing in the U.S. where we're committed to invest \$600 billion over the next 4 years with a focus on innovation in strategic areas like advanced manufacturing, silicon engineering and artificial intelligence. These commitments build on our long-standing investments in America, while supporting more than 450,000 jobs with thousands of suppliers across all 50 states. We built a new factory in Houston for advanced AI service, for example, which just started shipping its first products off the line, and we're leading the creation of end-to-end silicon supply chain across the country. In recent months, I've connected with developers, innovators, artists, entrepreneurs and so many others around the world, people passionate about innovation and all the things they can do with Apple products. Each one is another reminder of why we do what we do. We're driven to empower people to do more of the things that matter most to them and enrich their lives along the way. As we head into the holiday season with our most powerful lineup ever, I couldn't be more excited for what's to come. With that, I'll turn it over to Kevan.

Kevan Parekh

Thanks, Tim, and good afternoon, everyone. Our revenue of \$102.5 billion was up 8% year-over-year and is a new September quarter record. We set some temporal quarter records in the Americas, Europe, Japan and the rest of Asia Pacific and grew in the vast majority of markets we track. Products revenue was \$73.7 billion, up 5% year-over-year, driven by growth across iPhone and Mac and reached a September quarter record. Thanks to our exceptional customer satisfaction and strong levels of loyalty, our installed base of active devices has reached another all-time high across all product categories and geographic segments. Services revenue was \$28.8 billion, up 15% year-over-year and an all-time record. The performance was broad-based, with double-digit growth in the vast majority of the markets we track and double-digit growth across most of our services categories. Company gross margin was 47.2%, above the high end of our guidance range and up 70 basis points sequentially, driven by favorable mix. This includes approximately \$1.1 billion of tariff-related costs, which is in line with what we had estimated on our last call. Products gross margin was 36.2%, up 170 basis points sequentially driven by favorable mix. Services gross margin was 75.3%, down 30 basis points sequentially. Operating expenses landed at \$15.9 billion, up 11% year-over-year, driven by increased investment in R&D. These strong levels of business performance led to September quarter records for both net income and diluted earnings per share. Net income was \$27.5 billion and diluted earnings per share was \$1.85, up 13% year-over-year on an adjusted basis, excluding the onetime charge we recognized during the fourth quarter of 2024. Operating cash flow was also a September quarter record at \$29.7 billion. Now I'm going to provide some more details for each of our revenue categories. iPhone revenue was \$49 billion, up 6% year-over-year, driven by the iPhone 16 family. iPhone grew in the vast majority of the markets we track with September quarter records in many emerging markets, including Latin America, the Middle East and South Asia and an all-time record in India. The iPhone active installed base grew to an all-time high, and we set a September quarter record for upgraders. According to the recent survey from World Panel, iPhone was a top-selling model in the U.S., Urban China, the U.K., France, Australia and Japan. We continue to see very high levels of customer satisfaction in the U.S. at 98% as measured by 451 Research. Mac revenue was \$8.7 billion, up 13% year-over-year, driven by MacBook Air. We grew in every geographic segment with strong double-digit growth in emerging markets. The Mac installed base reached another all-time high with nearly half of customers who purchased a Mac being new to the product. And the latest customer satisfaction for Mac in the U.S. was reported at 96%. iPad revenue was \$7 billion, flat year-over-year. Keep in mind, we faced a difficult compare against the full quarter impact of the iPad Air and iPad Pro launch from last year, offset by the better-than-expected performance on the iPad. The installed base reached an all-time high with a September quarter record for upgraders 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 \$9 billion, flat year-over-year. This was driven by growth on Watch and AirPods, offset by accessories, which was impacted by strong performance in the year ago quarter, driven by the iPad launches. Both the Apple Watch and AirPods installed bases reached new all-time highs. Over half of the customers purchasing Apple Watch during the quarter were new to the product, and we also set a September record for upgraders an Apple Watch. And in the U.S., customer satisfaction was recently measured at 95%. Our services revenue reached an all-time high of \$28.8 billion, up 15% year-over-year. We achieved all-time revenue records in the Americas, Europe, Japan and rest of Asia Pacific as well as a September quarter record in Greater China. The majority of categories saw a sequential acceleration. And as Tim mentioned, we set many all-time revenue records, including payment services, where we reached an all-time revenue record and saw a double-digit growth year-over-year on Apple Pay Active Users. This strong momentum in the September quarter drove our total fiscal year services revenue to surpass \$100 billion, up 14% year-over-year and our best ever. The growth of our installed base of active devices continues to offer us great opportunities for the future. Customer engagement across our services offerings also continue to grow both transacting and paid accounts reached new all-time highs, and we continue to improve the quality and expand the reach of our services offerings. From additional markets for Apple Pay, now available in nearly 90 countries, to AppleCare One, a great new way to cover multiple Apple products in a single plan. Turning to enterprise. We are seeing an adoption of Apple products accelerate across industries to improve productivity and drive innovation. The BMW Group has been deploying tens of thousands of iPhones, including the factory employees to further strengthen its digital capabilities and advance innovation at the company. Capital One has expanded its Mac Choice program by adding thousands more MacBook Airs across its workforce. In the Czech Republic, its largest bank, [indiscernible], continues to invest in the Apple ecosystem with over 5,000 iPhones in addition to its existing thousands of iPads and Macs. And Purdue University has launched a spatial computing hub built around Vision Pro, designed to help prepare students to lead the next wave of innovation in critical industries like semiconductor and pharmaceutical

manufacturing. Let's turn to our cash position and capital return program. We ended the quarter with \$132 billion in cash and marketable securities. We had \$1.3 billion of debt maturities and decreased commercial paper by \$1.9 billion, resulting in \$99 billion in total debt. Therefore, at the end of the quarter, net cash was \$34 billion. During the quarter, we returned \$24 billion to shareholders. This included \$3.9 billion in dividends and equivalents and \$20 billion through open market repurchases of 89 million Apple shares. Taking a step back, we are very pleased with our record fiscal year 2025 results. As Tim mentioned, total company revenue for the year was \$416 billion with growth in iPhone, Mac, iPad and Services and all-time records in the vast majority of markets we track. This revenue performance led to very strong full year operating results with all-time records for net income and for diluted EPS, which grew double digits year-over-year on an adjusted basis. As we move ahead into the December quarter, I'd like to review our outlook, which includes the types of forward-looking information Suhasini referred to. Importantly, the color we're providing assumes that the global tariff rates, policies and application remain in effect as of this call and the global macroeconomic outlook does not worsen from today. We expect our December quarter total company revenue to grow by 10% to 12% year-over-year, which will be our best quarter ever. We expect iPhone revenue to grow double digits year-over-year, which would be our best iPhone quarter ever. On Mac, keep in mind, we expect to face a very difficult compare against the M4 MacBook Pro, Mac Mini and iMac launches in the year ago quarter. We expect services revenue to grow at a year-over-year rate similar to what we reported in the fiscal year 2025. We expect gross margin to be between 47% and 48%, which includes an estimated impact of \$1.4 billion of tariff-related costs. And as we've said before, we are significantly increasing our investments in AI, while continuing to invest in our product road map. And so for the December quarter, we expect operating expenses to be between \$18.1 billion and \$18.5 billion. We expect OI&E to be around \$150 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 November 13, 2025, to shareholders of record as of November 10, 2025. With that, let's open the call to questions.

Suhasini Chandramouli

[Operator Instructions] Operator, may we have the first question, please?

Operator

Certainly, we will go ahead and take our first question from Erik Woodring with Morgan Stanley.

Erik Woodring

Congrats on the results. Tim, can you maybe share a bit more detail on why you think the iPhone 17 is having the degree of success that it is at this point. And really, the question is, do you believe this is the aged installed base replacement cycle kicking in? Or are there specific features or functionality you believe stand out this cycle versus past cycles that consumers are really looking for? And then just a quick follow-up.

Timothy Cook

Eric, thanks for your comments. I think it's all about the product. The product lineup is incredibly strong, our strongest ever. The 17 Pro is the most pro phone we've ever done. It's incredible in the design things. The iPhone air is -- feels so thin and so light in your hand, it feels like it's going to fly away. And then the 17 phone is an incredible value and takes several of the features that were reserved for Pro before and brings them down to the consumer lineup. So overall, strongest iPhone lineup ever, and it's resonating around the world.

Erik Woodring

Great. And maybe a follow-up for you, Kevan. Can you maybe just discuss your approach to managing component cost inflation during this time, you're obviously increasing the memory content in your devices quite substantially at the same time. Memory prices are going through some pretty significant inflation. So just how are you managing through this cycle.

Kevan Parekh

Erik, thanks for the question. Look, as you know, we've got a pretty incredible world-class procurement team as we're constantly finding ways to continue to drive cost opportunities. Right now on the commodity side, I would say we're seeing a slight tailwind on memory in storage prices and nothing really to note there. And as we saw from our gross margin performance, we landed in a pretty good spot above the high end of the guidance range we provided at 47.2%. And as well, we're guiding at 47% to 48%. So I think we're managing costs pretty well. As you'll recall, when we talked about this time in the cycle, we just launched a bunch of new products. Those new products do have a slightly higher cost structure than the products they replace, but the team does a very good job of focusing our efforts on getting those costs down over time. And we feel pretty good about the performance we're seeing right now overall on material cost savings.

Suhasini Chandramouli

Operator, can we get the next question, please?

Operator

Our next question is from Ben Reitzes with Melius Research.

Benjamin Reitzes

Tim, can you talk a little bit about iPhone in China specifically? How is that going to trend in the December quarter? And have you turned the corner there? And how do you think that trajectory is going? And then I have a quick follow-up.

Timothy Cook

Yes. Ben, I was just there. It's incredibly vibrant and dynamic. The store traffic is up significantly year-over-year. The iPhone 17 has been -- the family has been very well received there. We do believe that we'll return to growth in Q1, and that is largely based on the reception of the iPhone there. And so I couldn't be more pleased with how things are going there in the early going.

Benjamin Reitzes

All right. That's great. And then services, great upside there, a little surprising, right? We were a little worried about that one only a few quarters ago. I was wondering if there were any [indiscernible] payments in there or if the resolution that we saw with the antitrust ruling with one of your partners was a boost and and if that played a role or if it was all really just organic outperformance with many of the things you mentioned.

Kevan Parekh

Ben, it's Kevan here. Let me try to answer that question. You're referring -- I just wanted to clarify, when you're referring to the antitrust piece, you're talking about the Google trial? Is that what you're referring to?

Benjamin Reitzes

Yes. Yes, sir.

Kevan Parekh

Okay. Yes, there was no tax-related impact. And what I would say is our strong performance for the quarter is really organically driven. And again, just to reiterate, we had an all-time revenue record here for the quarter at \$28.8 billion. And as well, we surpassed \$100 billion, so best year ever at 14% year-on-year. So really that was all organic growth. As Tim outlined and I outlined in the prepared remarks, we saw a majority of the categories have sequential acceleration, and we had many all-time revenue records. But nothing abnormal at all, really pretty much all organic growth.

Suhasini Chandramouli

Operator, could we get the next question, please?

Operator

Our next question is from Michael Ng.

Michael Ng

I just have two as well. First, just to follow up on the last one. the services revenue growth, I think, was the fastest across many categories and certainly the fastest in the last 2 years. I was just wondering if you could just unpack a little bit more of the drivers of the acceleration, was there kind of cross-selling with the new iPhone launch? Was it just installed base growth? I know you've been doing a lot of bundling with Apple One and Apple Care One. So any thoughts on that would be very helpful. And then I just have a quick follow-up.

Kevan Parekh

Michael, it's Kevan. Thanks for the question. Yes, let me build on the answer there. I think that the way we look at it is not one thing to point to that would have driven this higher performance. You're right that it is slightly higher than we've seen in the last few quarters. But as you know, our services portfolio is very broad with a broad range of businesses, all that have different growth profiles and different performance characteristics. So those can vary in any given quarter. I would say our strength, again, was very broad-based, both across categories and also geographically. So I wouldn't point to any particular factor that drove any kind of outperformance at all. We were just very pleased to see that result.

Michael Ng

Great. And just on iPhone sell-through, I was wondering if you were seeing any notable shifts in trends between the sell-through coming from upgraders versus switchers? Is the U.S. carrier competitive dynamic helping at all in terms of promotional activity? And any thoughts on channel inventory.

Timothy Cook

Okay. We did set a September quarter record for upgraders and so it was a great quarter from that point of view. It's really too early in the cycle on 17 to make any comments about upgraders or switchers. In terms of channel inventory, we ended the quarter toward the low end of the targeted range. Obviously, because we had constraints on several models of the 16 and 17. And for complete transparency and clarity, we're constrained today on several models of the iPhone 17. There's not a ramp issue. It's just we have very strong demand. And we're working very hard to fulfill all the orders that we have.

Suhasini Chandramouli

Operator, could we get the next question, please.

Operator

Our next question is from Amit Daryanani with Evercore.

Amit Daryanani

I guess Kevan, maybe just start with gross margins. Can you just walk through the expectations for the December quarter. I think it implies up 30 basis points or so sequentially. Can you just talk about the puts and takes on gross margin given you do have very sizable operating leverage in the quarter. So just maybe what are the puts and takes around that would be really helpful.

Kevan Parekh

Yes, sure. Amit, let me walk through the outlook. As we mentioned in our outlook, we are targeting a range of 47% to 48%. You take the midpoint of that range at 47.5%, you said it's roughly 25 basis points, 30 basis points higher. Really, there's a lot of puts and takes. As I talked about earlier, this is a quarter we launched a lot of new products. Those new products tend to have a higher cost structure than the products they replaced. So there's definitely an impact from the cost side of thing, but that was more than offset by a favorable mix, especially on the product side as well as you outlined, we typically see higher leverage in this quarter. So I would say those are the 2 big drivers. And so the sequential increase is really going to be driven by favorable mix particularly from the product side.

Amit Daryanani

Got it. And then if I just go back to the China discussion for a minute, the performance in China, at least in September quarter was a bit muted. Could you just talk about what resulted in the weakness over there? And do you think it was a bit more of a pause given iPhone Air, for example, I don't think was available until a few weeks ago. So just somewhat what drove the weakness in September? And is the uptick of that expectation for December there just from the iPhone Air coming out? Or are there other factors as well?

Timothy Cook

Yes. The Greater China revenue was down 4% in the -- year-over-year in the September quarter. It was driven by iPhone and if you look at the iPhone, the majority of the sequential year-over-year change was due to supply constraints that I mentioned earlier. And so it was basically supply constraints that drove the results. We're thrilled with what we're seeing right now with traffic being up significantly year-over-year and the reception of the 17 family we expect to return to growth this quarter.

Suhasini Chandramouli

Operator, could we have the next question, please?

Operator

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

Wamsi Mohan

Tim, if I can follow up on your comments about the constrained supply in the quarter, just given the very strong demand for iPhones. Do you expect that as you can see your visibility across demand and supply, do you think that you will be exiting December at a point where you wouldn't be constrained anymore? Or do you still expect that there could be constraints as you exit the December quarter? And any way to quantify sort of what revenue could have been in this quarter without constraints?

Timothy Cook

Yes. If you look at the supply constraints, today, we are constrained on several 17 models. We're not predicting when the supply/demand will balance. We're obviously working very hard to achieve that because we want to get as many of these products out to the customers as possible. But today, I'm not going to predict.

Wamsi Mohan

Okay. Okay. And then as a follow-up, how do you talk about new records across a lot of categories and services. I didn't hear Search explicitly called out. So maybe it's a little bit of a follow-up to Ben's question, but given that there are some concerns around search volumes decelerating at the expense of AI. How do you think about the broader sustainability of these very strong mid-teens growth rates for services or an extended period of time, not just for next quarter where you're obviously guiding to [14].

Timothy Cook

This is Tim. The advertising category, which is a combination of third-party and first-party did set a record during the quarter.

Wamsi Mohan

Okay. And sorry, just to be clear, both Apple's own internal advertising and within the licensing individually set records?

Timothy Cook

Actually I'm not saying that. I'm just saying that the combination of the 2 set of record. We don't -- I'm dodging the question intentionally because we don't split it at that level.

Suhasini Chandramouli

Operator, could we get the next question, please?

Operator

Our next question is from Samik Chatterjee with JPMorgan.

Samik Chatterjee

Maybe for the first one, Tim, you talked about the strong momentum you're seeing in China, which is also driving your conference for the December quarter. Any thoughts on the role that the smartphone subsidies in that region are playing in this momentum? And how do you think about sort of what portion of consumers

are maybe using some of those subsidies, leveraging the subsidies at this point? Any more insights into that? And I have a follow-up.

Timothy Cook

Yes, the subsidies play a favorable role. The subsidies, as you know, are sort of across multiple categories from PCs to tablets, smart watches and smartphones. And however, it's important to note they only apply to certain price ranges. And so there's a maximum price, and there's several of our products that are -- that sell above that price and therefore, are not eligible for a subsidy, but it does have a favorable effect. And it's clearly and at least from our vantage point, driving some consumer demand.

Samik Chatterjee

Okay. Got it. And a follow-up for Kevan here. On the OpEx increase going into the December quarter, a fairly sizable step-up. So if you could just dig into that number a bit more what are sort of the components towards what you're spending? And then that increase year-over-year in OpEx does sort of exceed your revenue growth. So is that sort of what we should expect on a going forward basis as well where you probably need to invest a bit more in the near future?

Kevan Parekh

Yes, Samik, thanks for that question. As we've been outlining and reiterated in our last call, we are increasing our investments in AI. We're also continuing to invest in our product road map. So the vast majority of the increase to our operating expenses are driven by R&D. While we continue to manage the company in a thoughtful and disciplined way, we're also managing the business for the long term and are super excited about all the opportunities that we see ahead. As it relates to the question around OpEx and revenue growth, while OpEx has been growing at a faster rate than revenue, we have seen gross margin expansion. And so when we look at that on a combined basis, it does allow us to have healthy operating leverage, and our operating income growth has been generally outpacing revenue growth for the past several years.

Suhasini Chandramouli

Operator, could we get the next question, please?

Operator

Our next question is from David Vogt with UBS.

David Vogt

So maybe, Kevan, can I ask first. Can you help us understand sort of the tariff impact sequentially from the September quarter to the December quarter, particularly around iPhone supply constraints because I think I heard you say tariffs go from \$1.1 billion to \$1.4 billion, but the sequential uplift in iPhone revenue and presumably production given supply chain constraints is dramatically bigger. So you can help us understand how to think about the timing of those tariff headwinds as we move forward and sort of that correlation? And then I have a follow-up.

Timothy Cook

David, I'll take this one. You're right, it goes from \$1.1 billion to a projection of \$1.4 billion. And the \$1.4 billion is based on sort of what we know right now and where the tariff rates and policies and so forth are. So it assumes a stable kind of environment for the quarter. It does comprehend the change that was just made, which we're very encouraged to see with the tariffs moving from 20% to 10% in China. And so that is factored in. And that is one of the reasons why the it's not linear to volume, if you will. Does that make sense?

David Vogt

No, that's helpful. That's what I was asking if the change is reflected in that outlook. And then just as a follow-up, when you think about -- I think on the Macs, I know people aren't asking about it, you talked about the tough comp, but you're going into sort of a holiday season, I understand that. But when you think about the attached possibility for other products to the iPhone in the holiday season, how do we think about sort of where the consumers heads that and their wallet is at this point in the cycle and granted it is a tough comp, but is there an opportunity to see some maybe upside from an attach rate perspective given the strength in the iPhone portfolio?

Timothy Cook

We always like to remind people that buy an iPhone, all the other things that we offer. And so you can bet that we're doing that. From a Mac point of view, the challenges that last year was sort of the mother of all Mac launches. All of these from Mac mini to iMac to all the Macbook Pros, all launched literally at the same time. And this year, that compares to launching the 14-inch MacBook Pro. And so there's a very difficult compare. Of course, in the long run, I'm very bullish on the Mac. And you can see that the Mac again last quarter outgrew the market. And so we feel really well about how Mac is positioned, but this certain quarter is an extremely difficult compare.

Kevan Parekh

Yes. And Tim, I'll add to that, that we also have the DRAM upgrades last year for the Mac lineup also is another factor.

Suhasini Chandramouli

Operator, could we get the next question, please?

Operator

Our next question is from Krish Sankar with TD Cowen.

Sreekrishnan Sankarnarayanan

My first one is on the iPhone constraints. Is there a way to quantify how much this is you left on the table because of those constraints? And is the different iPhone manufacturing from 2 different regions contributing to the constraint? And then I have a follow-up for you.

Timothy Cook

To be clear, the constraint was not related to manufacturing capacity per se. It was that we called the number of iPhone 16s that we were going to make, and we're a bit short of where the demand really was. So we could have sold more. We're not publicly at least estimating the extent of that. And then on iPhone 17 family, the demand is very strong. And so we obviously came out of the Q4 time frame with lots of back orders.

Sreekrishnan Sankarnarayanan

Got it. And then a quick follow-up. Given like the prevalence of chatbots and now some of these AI-infused services, do you think that could change the consumer behavior on mobile app ecosystems or are you seeing any of that? And would that have any impact on your App Store?

Timothy Cook

I think there are opportunities on the App Store with artificial intelligence. And so I think as we have made our on-device models available for developers, and we've seen developers begin to adopt them and so I think as you -- as that proliferates, there's an opportunity to -- for developers and for Apple to benefit from that from adding features to their apps and so forth.

Suhasini Chandramouli

Operator, could we get the next question, please?

Operator

Our next question is from Aaron Rakers with Wells Fargo.

Aaron Rakers

I have two as well. I guess the first question is when we look at the iPhone 17 demand, which you've repeatedly highlighted is very strong. I'm curious if there's been any discernible kind of change in the mix within the iPhone 17 categories between the Pro and the Pro Max versions relative to prior cycles?

Timothy Cook

It's really too early to call the mix, to be honest. And we don't like to publicly disclose that because of -- for competitive reasons. But frankly, we don't really know what the mix will be yet because we have constraints on both sides of the ledger at the top and at the entry. And so we'll see what happens as we get more supply.

Aaron Rakers

Yes. And then as a quick follow-up. I'm curious, as we kind of work through kind of the AI narrative that continues to build. Is there -- could you provide any kind of updated thoughts around the build-out of Apple's private compute cloud and how we should think about that kind of as we look forward?

Timothy Cook

Yes. We're obviously using PCC, our private cloud compute today for a number of queries for Siri, and we will continue to build it out. In fact, the manufacturing plant that makes the servers used for Apple Intelligence just started manufacturing in Houston a few weeks ago, and we've got a ramp plan there for use in our data centers and it's robust.

Kevan Parekh

Yes. Aaron, I'll add maybe there are two since you asked a question about private cloud compute that we -- in '25, we did have CapEx costs associated with building out our private cloud compute environment in our first-party data centers. So you would have seen that in some of the CapEx investment in the year.

Suhasini Chandramouli

Operator, can we get the next question, please?

Operator

Our next question is from Atif Malik with Citi.

Atif Malik

Great execution. The first question is on iPhone Air. Does the consumer reception and iPhone Air gives you a feel on perhaps the foldable corn market? Or are the 2 form factors very different?

Timothy Cook

I'm not sure that that one is a proxy for the other. The thing that I would say is that where we don't get into the model kind of demand. At the aggregate level, we are thrilled with how iPhone has been received, and that's the reason that we're expecting double-digit growth in the current quarter.

Atif Malik

Great. And Tim, as a follow-up, good to know that the personalized Siri is making good progress and on track for next year. Will you continue to use a 3-pronged approach with your own foundation models and partner with other LLM providers and maybe potential M&A? Or is one strategy more emphasized over another?

Timothy Cook

We're obviously creating Apple Foundation models within Apple. We ship them on device and use them in the private cloud compute as well. And we've got several in development. And so we also, from a continually to surveil the market on M&A and are open to pursuing M&A if we think that it will advance our road map.

Suhasini Chandramouli

Operator, can we get our last question, please?

Operator

Our last question is from Richard Kramer with Arete Research.

Richard Kramer

Tim, we've often seen Apple be a fast follower with iPhone and new technology, whether large displays or 4G or 5G. But with all the height now around AI, are you seeing evidence that AI capabilities or features are a material purchase consideration for consumers or the record sales levels you're reporting simply reflecting other factors like the retention of your iOS space?

Timothy Cook

I think that there are many factors that influence people's purchasing considerations. And so -- and we don't have a great in-depth survey yet on the current iPhone 17 because it's very new in the cycle, and we give it some time to formulate. But I would say that Apple Intelligence is a factor. And we're very bullish on it becoming a greater factor and so that's the way that we look at it.

Richard Kramer

Okay. And then one for Kevan. In the wake of nearly every other large tech company massively increasing their CapEx in advance of AI demand and also mentioning that there's scarce capacity, do you anticipate Apple altering its sort of long-standing hybrid approach to your own and third-party data centers? And maybe can you talk a little bit about the role you see for Apple silicon with the new M5 series of chipsets?

Kevan Parekh

Richard, thanks for the question. In general, I think as we've talked about before, we are expecting increases in our CapEx spending related to AI investments. For example, as I mentioned earlier, we did end up having investments this year to build out our private cloud compute environment. And we do believe this hybrid model has served us very well, and we continue to want to leverage it. And so I don't see us moving away from this hybrid model where we leverage both first-party capacity as well as leverage third-party capacity. We'll continue to want to build out private cloud compute, as Tim outlined, as we have more usage there over time. But I think in general, we want to continue to have this hybrid model.

Suhasini Chandramouli

A replay of today's call will be available for 2 weeks on Apple podcast as a webcast on apple.com/investor and via telephone. The number for the telephone replay is (866) 583-1035. Please enter confirmation code 0689794 followed by the pound sign. These replays will be available by approximately 05:00 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. Thanks again for joining us.

Operator

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