

## AAPL Earnings Call – FY2024 Q1

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### Operator

Good day, and welcome to the Apple Q1 Fiscal Year 2024 Earnings Conference Call. Today's call is being recorded. At this time, for opening remarks and introductions. I would like to turn the call over to Suhasini Chandramouli, Director of Investor Relations. Please go ahead.

### Suhasini Chandramouli

Thank you for joining us. 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. Before turning the call over to Tim, I would like to remind everyone that the quarter we're reporting today included 13 weeks, whereas the quarter we reported a year ago included 14 weeks. 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.

### Tim Cook

Thank you, Suhasini. Good afternoon, everyone, and thanks for joining the call. Today, Apple is reporting revenue of \$119.6 billion for the December quarter, up 2% from a year ago despite having one less week in the quarter. EPS was \$2.18, up 16% from a year ago and an all-time record. We achieved revenue records across more than two dozen countries and regions including all-time records in Europe and rest of Asia-Pacific. We also continue to see strong double-digit growth in many emerging markets with all-time records in Malaysia, Mexico, The Philippines, Poland, and Turkey, as well as December quarter records in India, Indonesia, Saudi Arabia, and Chile. In Services, we set an all-time revenue record with paid subscriptions growing double-digits year-over-year. And I'm pleased to announce today that we have set a new record for our installed base, which has now surpassed 2.2 billion active devices. We are announcing these results on the eve of what is sure to be a historic day as we enter the era of spatial computing. Starting tomorrow, Apple Vision Pro, the most advanced personal electronics device ever, will be available in Apple stores for customers in the U.S. with expansion to other countries later this year. Apple Vision Pro is a revolutionary device built on decades of Apple innovation and it's years ahead of anything else. Apple Vision Pro has a groundbreaking new input system and thousands of innovations, and it will unlock incredible experiences for users and developers that are simply not possible on any other device. There is already so much excitement behind this product from reviewers, customers, and developers. They are praising everything from the incredible experience of watching a movie on a 100-foot screen to remarkable new machine learning capabilities like hand tracking and room mapping. We can't wait for people to experience the magic for themselves. Moments like these are what we live for at Apple. They're why we do what we do. They're why we're so unflinchingly dedicated to groundbreaking innovation and why we're so focused on pushing technology to its limits as we work to enrich the lives of our users. As we look ahead, we will continue to invest in these and other technologies that will shape the future. That includes artificial intelligence where we continue to spend a tremendous amount of time and effort, and we're excited to share the details of our ongoing work in that space later this year. Now, let's turn to the results for the December quarter, beginning with iPhone. We are proud to report that revenue came in at \$69.7 billion, 6% higher than a year ago. The iPhone 15 lineup has earned glowing reviews and been embraced by customers. The iPhone 15 and iPhone 15 Plus feature a gorgeous new design with color-infused back glass and contoured edges, Dynamic Island, A16 Bionic, and a new 48 megapixel camera system. And the iPhone 15 Pro and iPhone 15 Pro Max set the gold standard for smartphones with a beautiful and lighter titanium design, industry-leading performance with A17 Pro and our most advanced camera system with the equivalent of seven pro lenses and the ability to record spatial video. Features like Emergency SOS and roadside assistance via satellite bring peace of mind to users when they travel, and I'm grateful for every note I've received about their lifesaving impact. Turning to Mac. Revenue came in at \$7.8 billion, up 1% year-over-year, driven by the strength of our latest M3-powered MacBook Pro models in spite of having one less week of sales. Just last week, we got to wish Mac a happy 40th birthday. When it was introduced 40 years ago, Mac changed everything, and through the years, it has done so again and again. Recently, we have been on a tremendous pace of innovation. Since the introduction of Apple silicon in 2020, we've been proud to offer our users unmatched performance and power along with a remarkable Neural Engine for artificial intelligence and machine learning. This past fall, we had an amazing launch of the latest generation of Apple silicon for Mac, M3, M3 Pro, and M3 Max. These chips break new ground in power and performance empowering users to do more than they ever could before, whether they're making a musical masterpiece using the latest features in Logic Pro, or beating their high score in a graphics intensive game. A favorite amongst students, business owners, artists, and video editors, our MacBook Pro lineup is the world's best pro notebook family. And iMac, the world's most capable and best-selling all-in-one, is now faster than ever, thanks to M3. In iPad, revenue for the December quarter was \$7 billion, down 25% year-over-year due to a difficult compare with the launch of the M2 iPad Pro and the 10th generation iPad during the December quarter last year and one less week of sales. iPad remains the most versatile, capable, and elegant tablet on the market today. It continues to be the go-to-device for students, creators, and more with customers loving iPad's incredible combination of portability and performance. Powerful apps like Final Cut Pro and Logic Pro for iPad allow video and music creators to unleash their creativity in new ways that are only possible on iPad. iPad continues to push the boundaries of what's possible on a tablet. In Wearables, Home and Accessories, revenue came in at \$12 billion, down 11% from a year ago due to a difficult compare with the launch timing of several products in this category and the impact of the 14th week last year. Across our latest Apple Watch lineup, we're enabling and encouraging our users to live a healthier day, while making Apple Watch even more intuitive to use. The new double tap gesture on Apple Watch Series 9 and Apple Watch Ultra 2 make it easier to answer calls, play and pause music or take a photo with iPhone. I've been deeply moved by the many touching stories about how features like a regular rhythm notification and fall detection helped Apple Watch users when they needed it most. And for the first time ever, users can choose a carbon-neutral option of any new Apple Watch. Meanwhile, our AirPods lineup continue to be a holiday favorite. In Services, we set an all-time revenue record of \$23.1 billion and an 11% year-over-year increase. Because we had one less week this quarter, this growth represents an acceleration from the September quarter, and we achieved all-time revenue records across advertising, cloud services, payment services and video, as well as December quarter records in App Store and AppleCare. Across our services, we're constantly growing our offerings to give users even more to love. With the redesigned Apple TV app, we've made it easier for subscribers to enjoy all their favorite shows, movies and sports, including Apple TV+ hits like Masters of the Air, Monarch, and Slow Horses. We're proud to be a part of Martin Scorsese's Killers of the Flower Moon, a film that has moved audiences and earned more than 200 accolades including Best Film of the Year from the New York Film Critics Circle, nine BAFTA nominations, a Golden Globe win, and 10 Oscar nominations, including Best Picture. Across all Apple TV+ productions, we've now earned 2050 award nominations and 450 wins since we've introduced

the service. We're also excited to have a new season of Major League Soccer kicking off this month. We're looking forward to seeing Lionel Messi return to the field and to following all of our favorite teams in what is sure to be an incredible season. And we're counting down to the Apple Music Super Bowl halftime show, featuring Usher. Turning to Retail. In recent months, we opened three stores, including our 100th store in Asia-Pacific. Throughout the holidays, our team members pulled out all the stops to help customers find the perfect gift. And I know our U.S. team members are especially excited to begin demoing Apple Vision Pro for our customers tomorrow. At Apple, we live and breathe innovation. We are driven to pioneer new technology that can enrich our customers' lives, and we're just as intentional about showing up with our values and being a force for good in the world. February is Black History Month, and to honor it, we've launched our new Black Unity Collection, which includes the Black Unity Sport Loop band. This year's designs reflect a lasting commitment to working toward a more equitable world. We also continue to do a central work through our Racial Equity and Justice Initiative, and we're proud to continue providing grants to organizations that are making a real impact in the world. In recent months, we've also taken significant strides in our environmental work. We're partnering with suppliers to bring more clean energy online for Apple production. We're using more recycled materials than ever before and more energy-efficient transportation than ever before. And each day, we are taking more and more steps toward becoming 100% carbon-neutral across all of our products by 2030. Apple is a company that has never shied away from big challenges. That's because we are grounded by a deep sense of purpose and guided by core belief in the transformative power of innovation. And so, we are optimistic about the future, confident in the long-term, and as excited as we've ever been to deliver for our users like only Apple can. With that, I'll turn it over to Luca.

### **Luca Maestri**

Thank you, Tim, and good afternoon, everyone. Revenue for the December quarter was \$119.6 billion, up 2% from last year. During the December quarter a year ago, two unique factors affected our results. First, we had an additional week in the quarter. And second, we had COVID-related factory shutdowns that limited iPhone supply. We estimate that the net impact of these two factors resulted in a 2 percentage point headwind to our revenue performance this quarter. We set all-time revenue records in Europe and rest of Asia-Pacific, and continue to see strong performance across our emerging markets with double-digit growth in the majority of the emerging markets we track. Products revenue was \$96.5 billion, flat compared to last year, driven by strength in iPhone, offset by challenging compares for iPad and Wearables, Home and Accessories and one less week of sales this year across the entire portfolio. Thanks to our unparalleled customer loyalty and very strong levels of customer satisfaction, our total installed base of active devices set a new record across all products and all geographic segments, and is now over 2.2 billion active devices. Services revenue set an all-time record of \$23.1 billion, up 11% year-over-year. When we take into account the extra week last year, this represents a sequential acceleration of growth from the September quarter. We are very pleased with our Services performance in both developed and emerging markets with all-time revenue records in the Americas, Europe, and rest of Asia-Pacific. Company gross margin was 45.9%, up 70 basis points sequentially, driven by leverage and favorable mix, partially offset by foreign exchange. Products gross margin was 39.4%, up 280 basis points sequentially, also driven by leverage and mix, partially offset by foreign exchange. Services gross margin was 72.8%, up 190 basis points from last quarter, due to a more favorable mix. Operating expenses of \$14.5 billion were at the midpoint of the guidance range we provided and up 1% year-over-year. Net income was \$33.9 billion, up \$3.9 billion from last year. Diluted EPS was \$2.18, up 16% versus last year and an all-time record. And operating cash flow was very strong at \$39.9 billion. Let me now provide more detail for each of our revenue categories. iPhone revenue was \$69.7 billion, up 6% year-over-year. We set all-time records in several countries and regions, including Latin America, Western Europe, the Middle East, and Korea, as well as December quarter records in India and Indonesia. Our iPhone active installed base grew to a new all-time high, and we had an all-time record number of iPhone upgraders during the quarter. Customers are loving their new iPhone 15 family, with the latest reports from 451 Research indicating customer satisfaction of 99% in the U.S. In fact, many iPhone models were among the top-selling smartphones around the world during the quarter. According to a survey from Kantar, iPhones were four out of the top five models in the U.S. and Japan, four out of the top six models in urban China and the UK, and all top five models in Australia. Mac generated revenue of \$7.8 billion and return to growth, despite one less week of sales this year. This represents a significant acceleration from the September quarter when we faced a challenging compare due to the supply disruptions and subsequent demand recapture we experienced a year ago. Customer response to our latest iMac and MacBook Pro models powered by the M3 chips has been great. And our Mac installed base reached an all-time high with almost half of Mac buyers during the quarter being new to the product. Also, 451 Research recently reported customer satisfaction of 97% for Mac in the U.S. iPad was \$7 billion in revenue, down 25% year-over-year. iPad faced a difficult compare because during the December quarter last year, we launched the new iPad Pro and iPad 10 generation, and we had an extra week of sales. However, the iPad installed base continues to grow and is an all-time high with over half of the customers who purchased iPads during the quarter being new to the product, and customer satisfaction for iPad was recently measured at 98% in the U.S. Wearables, Home and Accessories revenue was \$12 billion, down 11% year-over-year due to a challenging launch compare and the extra week a year ago. This time last year, we had the full quarter benefit from the launches of the AirPods Pro 2nd generation, the Watch SE, and the first Watch Ultra. We continue to attract new customers to Apple Watch. Nearly two-thirds of customers purchasing an Apple Watch during the quarter were new to the product, and the latest reports from 451 Research indicate customer satisfaction of 96% in the U.S. And in Services, we were very pleased with our double-digit growth, which was driven by the strength of our ecosystem. Our installed base is now over 2.2 billion active devices and continues to grow nicely, establishing a solid foundation for the future expansion of our Services business. And we continue to see increased customer engagement with our services. Both transacting accounts and paid accounts reached a new all-time high, with paid accounts growing double-digits year-over-year. Also, our 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 four years ago. Finally, we continue to build on the breadth and the quality of our current services. From Oscar-nominated theatrical releases with Apple TV+ to more publications or News+ like The Atlantic and exciting new games on Arcade. Turning to Enterprise, we continue to see many business customers leverage Apple products to improve productivity and drive innovation. Target recently added the latest M3 MacBook Pro to their existing deployment of thousands of Mac's, enabling employees across various departments to do their best work. In emerging markets, Zoho, a leading technology company headquartered in India, offers its 15,000 plus global employees a choice of devices, with 80% of their workforce using iPhone for work and nearly two-thirds of them choosing Mac as their primary computer. With the upcoming launch of Apple Vision Pro, we are seeing strong excitement in Enterprise. Leading organizations across many industries such as Walmart, Nike, Vanguard, Stryker, Bloomberg, and SAP have started leveraging and investing in Apple Vision Pro as their new platform to bring innovative spatial computing experiences to their customers and employees. From everyday productivity to collaborative product design to immersive training, we cannot wait to see the amazing things our enterprise customers will create in the months and years to come. Let me now turn to our cash position and capital return program. We ended the quarter with \$173 billion in cash and marketable securities. We decreased commercial paper by \$4 billion, leaving us with total debt of \$108 billion. As a result, net cash was \$65 billion at the end of the quarter, and our goal of becoming net cash-neutral over time remains unchanged. During the quarter, we returned nearly \$27 billion to shareholders, including \$3.8 billion in dividends and equivalents and \$20.5 billion through open market repurchases of 112 million Apple shares. We also retired an additional 6 million shares in the final settlement of our 19th ASR. As usual, we will provide an update to our capital return program when we report results at the end of this quarter. As we move ahead into the March 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. And we expect foreign exchange to be a revenue headwind of about 2 percentage points on a year-over-year basis. As a reminder, in the December quarter a year ago, we faced significant supply constraints on the iPhone 14 Pro and 14 Pro Max due to COVID-19 factory shutdowns. And in the March quarter a

year ago, we were able to replenish channel inventory and fulfill significant pent-up demand from the constraints. We estimate that this impact added close to \$5 billion to the March quarter's total revenue last year. When we remove this impact from last year's revenue, we expect both our March quarter total company revenue and iPhone revenue to be similar to a year ago. For our Services business, we expect a similar double-digit growth rate to what we reported in the December quarter. We expect gross margin to be between 46% and 47%. 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%. Finally, today our Board of Directors has declared a cash dividend of \$0.24 per share of common stock payable on February 15, 2024, to shareholders of record as of February 12, 2024. With that, let's open the call to questions.

**Suhasini Chandramouli**

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

**Operator**

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

**Erik Woodring**

Hey guys, good evening. Thank you for taking my questions. I have two. And congrats on the nice quarter here. Luca, maybe if we start with you. Can you unpackage some of the Services drivers a bit for us. Obviously, really nice outperformance in the December quarter versus your expectations. A record gross margin implies your higher margin businesses were likely the sources of outperformance. But can you maybe just clarify a bit how we should think about Services growth for the March quarter? And then, speak to some of those underlying drivers in the December quarter and then in the March quarter, what the different puts and takes would be? And then, I have a follow-up please. Thank you.

**Luca Maestri**

Thanks, Erik, for the question. Let's start with the December quarter. As we said, up 11%, \$23.1 billion is an all-time record for us, with all-time records in The Americas, in Europe, and the rest of Asia Pac. So it was pretty broad-based geographically, and very strong across all the Services categories, because we had all-time revenue records for cloud, for payments, for video, and for advertising and December quarter records for the App Store and for AppleCare. Obviously, last year, we had an extra week, so the 11% is stronger than -- the underlying performance is stronger than the 11% that we have reported. I think the entire ecosystem is doing well because we continue to see growth and new all-time highs in both transacting accounts and paid accounts, which is obviously very important. And paid subscriptions continue to grow strong double-digits. Just as a reference, we have more than a billion paid subscriptions across all the services on our platform. This is more than double the number of paid subscriptions that we had only four years ago. So, obviously, very significant growth there. What I said during the prepared remarks around the March quarter, I mentioned that we will continue to grow double-digits at a percentage that is similar to what we reported for the December quarter. We don't provide guidance around the different services categories. So, we will provide more color when we report in three months.

**Erik Woodring**

Okay. Thank you, Luca. And then, Tim, really nice to see your installed base reach a record high, again, against all products and geos. I'm wondering if you could share a bit more detail about the new users you were able to on-board over the last 12 months. Meaning, how might this new cohort look different from past cohorts, either in terms of geographic representation or SKU to certain products or even how their monetization trends might differ from past cohorts. And that's it from me. Thanks so much.

**Tim Cook**

Yes. Hi, Erik. I would say emerging markets are -- have been a very key area of strength for us. If you look at it, India grew -- in revenue terms grew strong double-digits in the December quarter and hit a quarter revenue record. The other emerging markets like Indonesia also hit a quarterly record. And we had several regions, with records from Latin America to the Middle East. And that theme has been pretty consistent across the other quarters that -- of the year as well. And so, emerging markets, very, very important. And I feel like we are doing a great job there.

**Suhasini Chandramouli**

Thanks, Erik. Operator, can we have the next question please?

**Operator**

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

**Mike Ng**

Hey, good afternoon. I just have two questions as well. First, on Services. Just on the outlook for the March quarter for a similar double-digit growth rate as of December quarter. I'm just wondering why not -- why won't it be potentially faster, given that the December quarter obviously had a headwind from the extra week comp, and I'd also think that some of the pricing uplifts on select Apple One services that were implemented last winter should help in the March quarter? Any additional thoughts there would be great in terms of what some of your assumptions are. And then, I have a quick follow-up.

**Luca Maestri**

Yes. We'll see how the quarter develops. I would point to two things. One is the fact that we mentioned that we expect a couple of points of negative foreign exchange in the March quarter, and foreign exchange was essentially flat for us in the December quarter. So, you've got a bit of a headwind there. And then, when you look at our other progression of our Services business over the last few quarters, the compares for March are slightly more difficult than the compares for December.

**Mike Ng**

Great. Thank you, Luca. And then, my second question. It was very interesting to hear about some of the enterprise customer investments into Vision Pro. Could you maybe just talk about some of the efforts to support Vision Pro developer ecosystem. And it was also good to hear about the potential upcoming announcements on AI. So any thoughts there would also be helpful. Thank you.

**Tim Cook**

Yeah. Hi. It's -- we are incredibly excited about the Enterprise opportunities with Vision Pro. I've seen several demos from different companies. Luca mentioned several in his opening remarks, but Walmart has a very cool merchandising app. There are firms that are doing collaboration -- design collaboration apps. There are field service applications. Really all over the map, there are applications that are for control center, command center kind of things. SAP has really gotten behind it and, of course, SAP is in so many of companies. I think there will be a great opportunity for us in Enterprise, and we couldn't be more excited about where things are right now. We are obviously looking forward to tomorrow. This has been multiple years of efforts from so many people across Apple. And really, it took a whole of company effort to bring it to this far. In terms of generative AI, which, I'd guess, is your focus, we have a lot of work going on internally as I've alluded to before. Our MO, if you will, has always been to do work and then talk about work and not to get out in front of ourselves. And so, we're going to hold that to this as well. But we've got some things that we are incredibly excited about that we'll be talking about later this year.

**Mike Ng**

Wonderful. Thank you, Tim.

**Tim Cook**

Yes.

**Suhasini Chandramouli**

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

**Operator**

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

**Wamsi Mohan**

Yes, thank you so much. I have two questions as well. First on iPhone. There have been concerns around replacement cycles lengthening, China competition intensifying, and you still beat iPhone revenues despite the weaker performance in China. Curious how you're thinking about the 15 cycle overall, given what you saw in the December quarter. And I've a follow-up.

**Tim Cook**

Hi, it's Tim. The -- we were up 6%, as we mentioned in the opening remarks. We are happy with that performance. Underneath there, we had really strong performance in several parts of the world with all-time records in Europe and rest of Asia-Pacific. As I mentioned earlier, we did particularly well in several emerging markets from Latin America to the Middle East. And we set December quarter records in India and Indonesia. And so, really some spectacular broad-based reactions to iPhone. We also importantly set an all-time record worldwide for iPhone upgraders. And the installed base hit a new all-time high consistent with the -- our overall devices. And so, there's lot of good things. Luca mentioned in his opening comments that iPhones were four out of the top five smartphone models in the U.S. and Japan and four out of the top six in urban China and the UK, and all top five in Australia, and the customer satisfaction level for iPhone 15 hit 99%. If you look at iPhone 15 since the announcement of it and shipment in September, so this is including some of Q4 and you compare that to iPhone 14 over the same period of time, iPhone 15 is outselling iPhone 14. And so, we feel very good about that, and the upgraders hitting a record is particularly exciting for us.

**Wamsi Mohan**

Great. Thank you, Tim. And as a follow-up, obviously, you're just launching the Vision Pro and it's an entirely new category. It's a price point that's a much higher starting price point relative to most of your other, probably over the last decade, product introductions, but just wondering how would you measure the success of Vision Pro over time and which Apple products adoption curve would you look at as potentially the most similar? And is there a way in which we could think Vision Pro could eclipse maybe something like the iPad in revenue over time. Thank you.

**Tim Cook**

You know, each product has its own journey. And so, I wouldn't want to compare it to any one in particular. I would just say we couldn't be more excited. Internally, we've got an incredible amount of excitement from developers and from customers that can't wait till tomorrow to pick up their units. And we are incredibly proud to be able to demo the unit in so many of our stores in the U.S. starting tomorrow for people that are -- that want to check it out. And so, we'll see and report the results of it in the Wearables category that you're familiar with. I think that if you look at it from a price point of view, there's an incredible amount of technology that's packed into the product. There's 5,000 patents in the product and it's, of course, built on many innovations that Apple has spent multiple years on, from silicon to displays and significant AI and machine learning. All the hand tracking, the room mapping, all of this stuff is driven by AI. And so, we're incredibly excited about it. I can't wait to be in the store for tomorrow and see the reaction myself.

**Wamsi Mohan**

Thank you so much, Tim.

**Suhasini Chandramouli**

Thanks, Wamsi. Operator, we'll take the next question please.

**Operator**

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

**Amit Daryanani**

Good afternoon. I have two as well. I guess, first off, I was hoping you could talk a little bit about what you're seeing in China right now. I think from a geographic basis, one of the few places that was down double-digits, while everything else was growing. So, I'm hoping you spend a bit of time discussing what are you seeing there from a competitive perspective and more importantly, from a demand perspective in China?

**Tim Cook**

Yeah. If you look at iPhone in China Mainland, which I think has been the focus of a lot of interest, and you look at it in constant currency, so more of an operational view, we were down mid-single digits on iPhone. And so, it was the other things that drove the larger contraction year-over-year. On the good news side, we had solid growth on upgraders year-over-year in Mainland China and we had four of the top six smartphone models in urban China. Also, IDC just put out a note, that you may have seen, that we were the top brand in -- for the full year and for the December quarter. And so, there's some good news along with -- obviously, we'd prefer not to [contract] (ph).

**Amit Daryanani**

Fair enough. And then, as a follow-up, you folks have implemented a fair bit of changes around the App Store in Europe post the DMA implementation there. Can you just touch on what are some of the key updates? And then, Luca, as a net of it all, do you see it having any significant impact financially to your services or a broader Apple P&L statement? Thank you.

**Tim Cook**

Yes. You know, the -- let me try to answer a little bit of both and then Luca can add some comments to it. We announced a number of changes last week in Europe that would be in effect beginning in March. So, the last month of the first calendar quarter, the second fiscal quarter. Those are -- some of the things that we announced include alternate billing opportunities, alternate app stores, our marketplaces, if you will. We're also opening NFC for new capabilities for banking and wallet apps. And so, these are some of the things we announced. The -- if you think about what we've done over the years is, we've really majored on privacy, security, and usability. And we've tried our best to get as close to the past in terms of the things that are -- that people love about our ecosystem as we can, but we are going to fall short of providing the maximum amount that we could supply, because we need to comply with the regulation. And so, in terms of predicting the choices that developers and users will make, it's very difficult to do that with precision. And so, I will see what happens in March.

**Luca Maestri**

Yes, Amit. As Tim said, these are changes that we're going to be implementing in March. A lot will depend on the choices that will be made. Just to keep it in context, the changes applied to the EU market, which represents roughly 7% of our global app store revenue.

**Amit Daryanani**

Perfect. That's a really good perspective to have. Thank you very much.

**Suhasini Chandramouli**

Thank you, Amit. Operator, can we have the next question please?

**Operator**

Our next question is from Aaron Rakers with Wells Fargo. Please go ahead.

**Aaron Rakers**

Yes. Thanks for taking the question. I have two as well as you would imagine. I guess, the first question I wanted to just ask maybe unpack a little bit more, just remarkable trends that we're seeing in your product gross margin specifically. So, I'm curious as we look forward, I guess on this last quarter, where there any kind of benefits you're seeing from like just the purchase component, obligations that you've put in place, let's say, a year ago, and that flowing through. And how are you thinking about the component pricing environment as we think about that gross margin into the March quarter and looking-forward?

**Luca Maestri**

Yes. On the product side and then maybe I'll make a comment in total for the company. On the product side, our gross margins increased sequentially 280 basis points. So, obviously, a very significant increase. I would say the two primary components of the increase are a favorable mix. Of course, iPhone did very well. We did very well with our high-end models. And leverage, of course, it's the biggest quarter of the year for us and so we get the leverage effect. We had a partial offset, negative impact from foreign exchange. But net-net, obviously, very significant improvement. And we had very similar dynamics on the Services side where we increased sequentially 190 basis points, also, in this case, due to a more favorable mix. And so, the combined effect of the two businesses gave us the 45.9% at the total company level, which is up 70% sequentially. You've heard from my prepared remarks that we are guiding total company gross margin to 46% to 47%, which is an additional expansion of margins compared to the already very strong results of the December quarter.

**Aaron Rakers**

Okay. And then, the second question I was just going to ask. Tim, you alluded to kind of your excitement around generative AI and some announcements that we should think about maybe later this year. One of the things that stands out for me is that, your capital expenditures has actually come down this last year. I'm curious as you look to lean in more to generative AI, is there something we should consider about the CapEx intensity at Apple to make investments to really set the table for generative AI, kind of platform as we move forward? Just given some of the things that we've seen from some other large tech companies.

**Luca Maestri**

I'll take the question, Aaron. We've always said, we will never underinvest in the business. So, we are making all the investments that are necessary throughout our product development, software development, services development. And so, we will continue to invest in every area of the business and at the appropriate level. And we're very excited about what's in store for us for the rest of the year.

**Aaron Rakers**

Thank you.

**Suhasini Chandramouli**

Thanks, Aaron. Operator, can we have the next question please?

**Operator**

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

**Krish Sankar**

Yes. Hi. Thanks for taking my question. I have two of them. First one for Luca, a clarification on a question. The \$5 billion impact in March quarter, is that for product revenue or is that total company revenue. And along the same part, you highlighted the strong gross margins. And I understand last year, some of the commodity costs were deflationary, but looks like it's going to be inflationary right now. And also you've done some of the Mac conversions that -- the silicon conversions. So I'm just trying to figure out how much juice is there more to squeeze on the gross margin side? And then I'll follow up for Tim.

**Luca Maestri**

Yes. The -- so the first part of the question was around -- oh, the \$5 billion. The \$5 billion, as I mentioned, a year ago we had this disruption of supply on iPhone 14 Pro and Pro Max because of the factory shutdown due to the COVID-19 situation. And so, essentially there was pent up demand as we exited December quarter, they got fulfilled and we also did the channel fill associated with it during the March quarter. So close to \$5 billion that I mentioned is entirely related to iPhone. On the gross margin side, obviously, we are at very high levels of gross margin. And I'll repeat what I said before, we've had good expansion over the last few quarters and now we are guiding to 46% to 47% and that takes into account everything that is going on, which is, the commodity environment, which is the foreign exchange situation, and obviously the product and services mix. And the outcome of this is the guidance, which obviously is very strong and we're very happy with it.

**Krish Sankar**

Thanks a lot, Luca. And then I have a follow-up for Tim. Tim, it was very interesting to hear your comments on enterprise. And historically, Apple has been a consumer centric company. And now with Vision Pro, Mac, it's sort of penetrating more into the enterprise. I'm kind of curious how to think about Apple of the future? Would it still be consumer centric or do you think it's going to be more enterprise focused also as we get into the future? Thank you very much.

**Tim Cook**

We've really concluded that we can do both. That if you look at it, what has happened over the last several years is that, employees are in a position in many companies to choose their own technology that is the best for them. And so, it sort of took some of the central command from the traditional company and decentralized the decision-making. That is a huge advantage for Apple, because there's a lot of people out there that want to use a Mac. They're using a Mac at home. They'd like to use one in the office as well. iPad has also benefited from that. Vision Pro, it's -- when you look at the ton of use cases, I mean, we're starting with a million apps and 600 plus that are -- have been designed particularly for Vision Pro. When I look at what is coming out of Enterprise, it's some of the most innovative things I've seen come out of Enterprise in a long time. And so, I think there's a like there is for the Mac and iPad, and of course, iPhone has been in enterprise since the early days of iPhone. I think there's a nice opportunity there for Vision Pro as well.

**Krish Sankar**

Great. Thanks a lot Tim. Very interesting to hear. Thank you.

**Suhasini Chandramouli**

Thank you, Krish. Operator, can we have the next question, please?

**Operator**

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

**David Vogt**

Great. Thanks guys. And I have two questions as well. So, Tim and Luke, I appreciate the strength in the emerging markets like India and the other names that you kind of listed on the call, but can you maybe spend some time on the Americas? Obviously, that was relatively flat, you touched on China, but what are you seeing in that market from the carriers here in the States? And is the sales cycle elongating or the replacement cycle elongating? And in your view what has to

change to kind of maybe re-accelerate that business in the America's, particular in the iPhone business? And then on sort of -- I just want to make sure I understand sort of the guide. So when I think about the \$5 billion pull forward last year in the March quarter from a channel fill perspective, even if I back it out last quarter or I back it up this quarter, the March quarter, this would be sort of the softest quarter since the COVID pandemic. Obviously, I know the Americas as I just touched on is a little bit softer than China, which you cleared up earlier. But how do you think about the differences in sort of the macro conditions by region? And again, do you have a sense for are we nearing a trough from a macro demand perspective or how long do you think this particular weakness persists? Thanks.

**Tim Cook**

Let me take the first part of your question about America. If you look at the U.S., which obviously drives the vast, vast majority of the revenue in America, we grew in the December quarter from an iPhone business point of view and the install base hit an all-time high. If you look at the replacement cycle, it's very difficult to measure the replacement cycle at any given point. And so, what we focus on internally a lot is the active install base and the -- obviously, the sales over usually a cycle and we feel better about those things. If you look at the -- who's selling what in the U.S., the iPhone is four out of the top five selling smartphones in the US. And of course, the customer satisfaction in the U.S. as we alluded to earlier is 99%. So we feel very, very good about what our position is in the U.S.

**Luca Maestri**

And I would add to that, keep in mind, obviously, the extra week that we had a year ago that obviously makes the compare more -- a bit distorted. On the March quarter guide, I would point to you that, obviously, the COVID years had a lot of, let's say, turmoil in it, a lot of volatility that typically you wouldn't see. If you look at our sequential progression from December to March this year versus pre-COVID versus like a more normal environment, it's actually stronger than those years.

**David Vogt**

Got it. Thanks, guys.

**Suhasini Chandramouli**

Thank you, David. Operator, can we have the last question, please?

**Operator**

Thank you. Our last question is from Ben Reitzes with Melius Research. Please go ahead.

**Ben Reitzes**

Yes. Hi. Thanks. Appreciate it. Two questions, if I can sneak them in. Just wanted to clarify on China. Tim, I think last quarter you still thought it was a growth market. Obviously, there's some concerns with the -- recently and given what we saw in the quarter, is there something that we can kind of point to where you feel that that market can resume growth in the future? And I'm wondering if you're still upbeat about that prospect. And then I just have a quick follow up.

**Tim Cook**

Ben, we've been in China for 30 years. And I remain very optimistic about China over the long term. And I feel good about hitting a new install base number, high watermark and very good about the growth in upgraders year-over-year during the quarter.

**Ben Reitzes**

Great. Thanks Tim. And just in terms of AI, I know you're not going to talk about your plans, but do you believe -- are you a believer in the edge thesis that AI and processing on smartphones and devices like yours is going to have a huge role in AI and AI apps and that it's something you guys can take advantage of.

**Tim Cook**

Let me just say that, I think there's a huge opportunity for Apple with GenAI and AI. And without getting into to more details and getting out in front of myself.

**Ben Reitzes**

Thanks Tim.

**Tim Cook**

Yes, Thanks, Ben.

**Suhasini Chandramouli**

All right. Thank you Ben. A replay of today's call will be available for two weeks on Apple Podcasts, as a webcast on [apple.com/investor](http://apple.com/investor) and via telephone. The number for the telephone replay is 866-583-1035. Please enter confirmation code 0106234 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. Thanks again for joining us.

**Operator**

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