Operator

Good day, and welcome to the Apple Incorporated Second Quarter Fiscal Year 2019 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 Nancy Paxton, Senior Director of Investor Relations. Please go ahead.

Nancy Paxton

Thank you. Good afternoon, and thanks to everyone for joining us today. Speaking first is Apple's CEO, Tim Cook; and he'll be followed by CFO, Luca Maestri. After that, we'll open the call to questions from analysts.

Please note that some of the information you'll hear during our discussion today will consist of forward-looking statements, including without limitation those regarding revenue, gross margin, operating expenses, other income and expense, taxes, capital allocation, and future business outlook. Actual results or trends could differ materially from our forecast.

For more information please refer to the Risk Factors discussed in Apple's most recently filed periodic reports on Form 10-K and Form 10-Q, 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 or information, which speak as of their respective dates.

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

Tim Cook

Thanks, Nancy. Good afternoon and thanks to all of you for joining us today. This has been an exciting and productive quarter for Apple. In my letter to investors at the beginning of January, I wrote that one of Apple's great strengths is our culture of flexibility, adaptability, and creativity. This quarter featured some important announcements that speak to the power of our commitment to innovation and long-term thinking. I'd like to start with some top-line highlights and then move into greater detail with you.

I'll get started with financial results. Our revenue was $58 billion toward the high end of our guidance range. We see this result as a positive outcome in light of ongoing headwinds from weaker foreign currencies relative to the U.S. dollar. In constant currency, our year-over-year revenue performance would have been 200 basis points better than our reported results indicate.

We had great results in a number of areas across our business. It was our best quarter ever for Services with revenue reaching $11.5 billion. We had a blockbuster quarter for iPad, with revenue up 22% from a year ago. This is our highest iPad revenue growth rate in six years. And it was another sensational quarter for Wearables with growth near 50%. This business is now about the size of a Fortune 200 company, an amazing statistic when you consider it's only been four years since we delivered the very first Apple Watch. I'll talk more about these categories later.

While we grew year-over-year in developed markets, and while we had record March quarter results in a number of major markets including the United States, Canada, the United Kingdom, and Japan, we did experience a revenue decline in emerging markets. But we feel positive about our trajectory. Our year-over-year revenue performance in Greater China improved relative to the December quarter, and we've seen very positive customer response to the pricing actions we've taken in that market, our trade-in and financing programs in our retail stores, the effects of government measures to stimulate the economy, and improved trade dialog between the United States and China.

Our App Store results are still reflecting the impact of the slowdown in regulatory approval in gaming apps in China, but we're encouraged by the recent increase in the pace of approvals. We believe strongly in our long-term opportunity in China, thanks to our robust ecosystem, our talented developer community, and the country's growing population of tech-savvy consumers who value the very best products and services. For iPhone, while our worldwide revenue was down 17% from a year ago, declines were significantly smaller in the final weeks of the March quarter.

Looking back at the past five months, November and December were the most challenging, so this is an encouraging trend. We like the direction we're headed with iPhone and our goal now is to pick up the pace. Importantly, our active installed base of devices continues to grow in each of our geographic segments, and set a new all-time record for all major product categories. That growing installed base is a reflection of the satisfaction and loyalty of our customers, and it's driving our Services business to new heights.

In fact, we had our best quarter ever for the App Store, Apple Music cloud services, and our App Store search ad business, and we set new March quarter revenue records for AppleCare and Apple Pay. Apple Pay transaction volume more than doubled year-over-year, and we're on track to reach 10 billion transactions this calendar year. Apple Pay is now available in 30 markets, and we expect to be live in 40 markets by the end of the year.

More and more transit systems are accepting Apple Pay and New York's MTA system will begin the rollout in early summer.

As we've seen in places like London, Tokyo, and Shanghai, contactless entry into transit systems helps to spur broader Apple Pay adoption, and we believe this will get even more people using Apple Pay in the United States. And Ticketmaster has just announced that they will be accepting Apple Pay for ticket purchases on the web and through the Ticketmaster app, and over 50 of their entertainment and sporting event venues are launching contactless tickets this year, including the vast majority of NFL stadiums.

Subscriptions are a powerful driver of our Services business. We reached a new high of over 390 million paid subscriptions at the end of March, an increase of 30 million in the last quarter alone. This was also an incredibly important quarter for our Services moving forward. In March, we previewed a game-changing array of new services, each of them rooted in principles that are fundamentally Apple. They're easy to use. They feature unmatched attention to detail. They put a premium on user privacy and security. They're expertly curated, personalized, and ready to be shared by everyone in your family.

These features aren't just nice to have. They actually help to eliminate the boundary between hardware, software, and service, creating a singularly exceptional experience for our users. First, building on the great momentum of Apple News, which is already the number one news app in the United States and the United Kingdom, we launched Apple News+. It will bring together over 30 popular magazines, leading newspapers, and digital publishers into a beautiful, convenient, and curated experience within the Apple News app.

Apple News+ builds on our commitment to supporting quality journalism from trusted sources, while providing the best magazine and news reading experience ever for mobile devices. Advancing our vision to replace the wallet, we announced Apple Card built on principles Apple stands for like transparency, simplicity, and privacy. Apple Card is integrated into the Wallet app and delivers all new experiences that only Apple can provide integrating our hardware, software and services in an elegant solution that places the customer at the center. It's the first card to encourage you to pay less interest, eliminate fees, and give you daily cash on all your purchases and customer interest to date has been terrific.

We also previewed Apple Arcade, the world's first game subscription service for mobile, desktop, and the living room. With over 100 new games, all with no ads or ad tracking, no additional purchases, and respect for user privacy, we've created a service for players of all ages, kids to teens to adults and one that families can enjoy together. The App Store is already the world's biggest gaming platform and we think Apple Arcade is a great way to unleash the creativity of the game developer community with a collection of new games not available on any other mobile platform or in any other subscription service. We can't wait for our customers to experience it for themselves beginning this fall.

We were thrilled to provide a peek at what's new for TV. Beginning in mid-May, the all-new Apple TV app will bring together the different ways to discover and watch shows, movies, sports news, and more in one app across iPhone, iPad, Apple TV, Mac, smart TVs, and streaming devices. And users can subscribe to and watch new Apple TV channels like HBO Showtime and Starz paying only for services they want all on-demand available on and offline. And coming this fall, Apple TV+ will be the new home for the world's most creative storytellers featuring exclusive original shows, movies, and documentaries.

We also had several major product introductions during the quarter. We launched a new, more powerful iMac with dramatic increases in both compute and graphics performance, making it a great update for consumers and pros alike. For our Mac business overall, we faced some processor constraints in the March quarter leading to a 5% revenue decline compared to last year, but we believe that our Mac revenue would have been up compared to last year without those constraints and don't believe this challenge will have a significant impact on our Q3 results.

For iPad, we were very happy to return to growth in Greater China while generating strong double-digit growth in each of our other geographic segments. Our great iPad results were driven primarily by strong customer response to iPad Pro. Late in the quarter, we launched an all-new iPad Air with an ultra-thin design, Apple Pencil support, and high-end performance powered by Apple's A12 Bionic chip.

In addition, we introduced a new iPad Mini, a major upgrade for iPad fans who love an ultra-portable design and like the new iPad Air, it delivers the power of the A12 Bionic and support for Apple Pencil. Last month, we introduced new AirPods, the second generation of the world's most popular wireless headphones and demand has been incredible. This is nothing less than a cultural phenomenon.

With the new Apple-designed H1 chip, the new AirPods deliver faster connect times, more talk time, and the convenience of hands-free Hey Siri. Our retail and online stores continue to be a key point of innovation. As we mentioned in January, we've been working on an initiative to make it simple to trade in a phone in our store, finance the purchase over time, and get help transferring data from the old phone to the new phone.

As part of this initiative, we rolled out new trade-in and financing programs in the U.S., China, the U.K., Spain, Italy, and Australia. The results have been striking. Across our stores, we had an all-time record response to our trade-in programs and with more than 4 times the trade-in volume of our March quarter a year ago.

With each passing quarter, we're more inspired by the impact our products are having on people's fitness and health. This quarter, we brought the ECG app on Apple Watch Series 4 to Hong Kong and 19 European countries including France, Germany, Italy, Spain, and the U.K.

Just like when the ECG app launched in the United States, there's hardly a day that goes by that I don't get a letter or an e-mail from a customer in one of these countries talking about how this feature has significantly changed their life. We believe we're really just beginning to tap into what we can do to help our users actively manage their health and well-being.

For example, last month Stanford Medicine reported results of the Apple Heart Study, the largest study ever of its kind, which enrolled over 400,000 participants from all 50 states in a span of only eight months. And hundreds of institutions are now supporting health records on iPhone with recent additions including Michigan Medicine and UT Health Austin.

In February, we announced that we are working with the U.S. Department of Veterans Affairs to make health records on iPhone available to veterans. This will be the first record sharing platform of its kind available to the VA, which is the largest medical system in the U.S. providing service to more than nine million veterans across more than 1,200 facilities.

Apple's innovation extends beyond the impact we have in the lives of our customers to the impact we leave on the world around us. We recently marked Earth Day with several major announcements about our efforts to leave the world better than we found it. We've completed the allocation of our $2.5 billion green bond proceeds across 40 environmental initiatives around the world to projects ranging from solar power generation to water conservation to development of custom alloys for our products made from 100% recycled aluminum.

We've announced a major expansion of our recycling programs, including quadrupling the number of locations where U.S. customers can send their iPhones to be disassembled by Daisy, our recycling robot. Each Daisy can now disassemble 1.2 million devices per year, allowing recovered materials to be recycled into the manufacturing process. And we partnered with a record number of our suppliers to follow our lead and transition to 100% clean energy. With the help of these 44 suppliers, we will exceed our goal of bringing four gigawatts of renewable energy into our supply chain by 2020 with over one additional gigawatt projected within that time frame.

In the last calendar year alone, the partners that have joined this effort have generated enough clean energy to power over 600,000 homes in the United States. We're very proud of the progress that we and our partners are making, and hope our actions will inspire other businesses to do what they can to protect the world that we share.

We are as excited as ever about our great pipeline of hardware, software and services and we're looking forward to sharing more information about the future of our four software platforms at our Worldwide Developer Conference now less than five weeks from now. Everyone here is hard at work to prepare for WWDC, and it's always a privilege to get to share the future of our platforms with the community of world changing developers who bring it to life. You are not going to want to miss this one.

We're in the fortunate position of generating more cash than we need to run our business and invest confidently in our future, so today we're announcing the latest update to our capital return program including an increase to our share repurchase authorization and our quarterly dividend.

For more details on that and our March quarter results, I'll turn the call over to Luca.

Luca Maestri

Thank you, Tim. Good afternoon, everyone. Revenue in the March quarter was $58 billion near the high end of the guidance range that we provided 90 days ago and down 5% from last year. Our revenue decline reflects 200 basis points of negative foreign exchange, due to the strength of the U.S. dollar. Overall, products revenue declined 9% driven primarily by iPhone, while Services revenue grew 16% to a new all-time record.

We also set a new March quarter record for Wearables Home and Accessories, and we recorded our best iPad growth rate in six years. Company gross margin was 37.6% in line with our guidance. Products gross margin was 31.2% down about 310 basis points sequentially due to the seasonal loss of leverage and headwinds from foreign exchange.

Services gross margin was 63.8%, up 100 basis points sequentially due to a different mix and leverage from higher revenue. Net income was $11.6 billion. Diluted earnings per share were $2.46 and operating cash flow was $11.2 billion.

Let me provide more color for our various revenue categories. iPhone revenue was $31.1 billion. We're seeing positive customer response to recent pricing actions in certain emerging markets, as well as enhancements to our trade-in and financing programs. And our year-over-year performance improved relative to our December quarter results in Greater China, in the Americas and in Japan.

Our active installed base of iPhone reached a new all-time high at the end of March. This growing installed base reflects the industry leading satisfaction and loyalty of our customers. The latest survey of U.S. consumers from 451 Research indicates customer satisfaction of 99% for iPhone XR, XS and XS Max combined. And among business buyers, who plan to purchase smartphones in the June quarter, 81% plan to purchase iPhones.

Turning to Services. As Tim said, it was our best quarter ever with $11.5 billion in revenue, an increase of 16% from last year. We generated double-digit revenue growth across the App Store, Apple Music, cloud services, AppleCare, Apple Pay and our App Store search ad business. And we set all-time services revenue records in four of our five geographic segments. We're very happy with this performance. As you can see from our new disclosures, Services accounted for 20% of our March quarter revenue and about one-third of our gross profit dollars.

Customer engagement in our ecosystem continues to grow. The number of transacting accounts on our digital content stores reached another new all-time high during the quarter with the number of paid accounts, also setting a new all-time record and growing by strong double-digits over last year. And we now have over 390 million paid subscriptions across our Services portfolio, an increase of 120 million versus just 12 months ago. All subscription categories are growing strong double-digits and as we mentioned a quarter ago, we expect the number of paid subscriptions to surpass 0.5 billion during 2020.

On the App Store, our subscription business is extremely diversified and is growing strongly around the world. In fact, the number of paid third-party subscriptions increased by over 40% compared to last year in each of our geographic segments. And across all third-party subscription apps, the largest accounted for only 0.3% of our total Services revenue.

Next, I'd like to talk about the Mac. Revenue was $5.5 billion compared to $5.8 billion a year ago with the decline driven primarily by processor constraint on certain popular models. In spite of this challenge, we generated double-digit Mac revenue growth in Japan and Korea setting new all-time Mac revenue records in both markets. On a global basis, nearly half of the customers purchasing Macs during the quarter were new to Mac and the active installed base of Macs reached a new all-time high.

We had great results for iPad with $4.9 billion in revenue and growth accelerating from the December quarter to 22%. iPad revenue grew in all five of our geographic segments, with a return to growth in Greater China and strong double-digit growth in all other segments. We had our best March quarter ever for iPad in Japan, and we were especially pleased by performance in Korea, Thailand and Mexico where revenue more than doubled over last year.

In total, over half of the customers purchasing iPads during the March quarter were new to iPad and the iPad active installed base also reached a new all-time high.

iPad revenue growth has been fueled primarily by the great customer response to our new iPad Pros. These completely redesigned iPads with full-screen Liquid Retina display, Face ID, powerful A12X Bionic chip with Neural Engine and support for the new Apple Pencil and Smart Keyboard make iPad Pro the perfect PC laptop replacement for both consumers and professionals.

The most recent surveys from 451 Research measured a 93% customer satisfaction rating for iPad overall. Among customers who plan to purchase tablets 77% of consumers and 75% of businesses plan to purchase iPads.

Wearables Home and Accessories revenue set a new March quarter revenue record of $5.1 billion fueled primarily by the strong performance of our Wearables business, which grew close to 50%. Within this category, Apple Watch is the best-selling and most loved smartwatch in the world and produced its best results ever for a non-holiday quarter. It's reaching many new customers with three quarters of purchases going to customers who have never owned an Apple Watch before. Interest in AirPods has been off the charts and we're working hard to catch up with the incredible customer demand.

Turning to our retail and online stores. We generated very strong double-digit revenue growth from Apple Watch and iPad. We also announced 50 new Today at Apple sessions during the quarter in three new and expanded formats Skills, Walks and Labs free at our stores around the world. We're making important progress in the enterprise market, helping transform major industries. We're building on Apple's leading position in key functional areas to expand our reach and share within large accounts.

Aviation is a strong example of this strategy at work. Across 450 airlines, iPad is overwhelmingly the preferred solution for the pilot's electronic flight bag. We've been making great progress expanding Apple's footprint beyond the cockpit into the cabin, where more than half of the top 50 airlines have now implemented iOS to enhance the guest experience as well as enable a new use case with mobile point-of-sale.

We're also seeing traction with other mission-critical airline functions in ground operations and flight maintenance. For example, one of the largest airlines in the world tells us that the adoption of iPad has cut maintenance delays in half. Apple services are also making their way onboard, including growing adoption of Apple Pay for food and beverage purchases and in-flight access to Apple Music.

We're also seeing significant iOS traction with large enterprise platforms which are the face of complex back-end systems to tens of millions of employees around the world. The end user employee experience is vital to engagement and productivity and with increasing mobility of today's modern workforce, those experiences are best on native iOS applications.

We see great momentum through the growing number of iOS SDKs being delivered by the world's largest enterprise platforms. For instance, SAP's SDK for iOS continues to gain strong traction with their customers, growing by more than 40% in the last six months. And this past quarter Salesforce released its SDK enabling developers to build native iOS applications directly on top of the Salesforce platform.

And finally, our enterprise channels continue to build momentum. In February, our Apple at Work initiative was launched with AT&T. This extension to our ongoing collaboration with AT&T will make it easy for more customers to choose the best Apple products for their needs in the enterprise and modernize their business. AT&T will enable business services for Apple products to help companies with their IT strategy, including device management, security, productivity and collaboration.

Let me now turn to our cash position. We ended the quarter with $225 billion in cash, plus marketable securities. We also had $101 billion in term debt and $12 billion in commercial paper outstanding, for a net cash position of almost $113 billion.

As a result, we are in a very strong position that allows us to invest confidently in all areas of the business, while continuing to return value to our shareholders. Just last year, we announced a commitment to contribute more than $350 billion to the U.S. economy over the next five years, including the creation of 20,000 jobs.

More recently, we've announced a major expansion in Austin Texas and in other cities across the country. All these efforts are essential investments to make sure that we're incorporating innovative ideas and top talent wherever they emerge.

As we execute those initiatives, we are also able to return over $27 billion to investors during the March quarter. We began a $12 billion accelerated share repurchase program in February, resulting in the initial delivery and retirement of 55.1 million shares. We also repurchased 71.7 million Apple shares for $12 billion through open market transactions and we paid $3.4 billion in dividends and equivalents.

Our priorities for cash have not changed over the years. Most importantly, we always want to maintain the cash we need to run our business, maintain strategic flexibility, and invest in our future. We're well on our way towards meeting the investment projections we laid out early last year. We also want to work towards a more optimal capital structure and as we said before, it is our plan to reach a net cash neutral position over time.

Given our confidence in Apple's future and the value we see in our stock, our Board has authorized an additional $75 billion for share repurchases. And because we know many of our investors value income, we're also raising our quarterly dividend for the seventh time in less than seven years to $0.77, an increase of about 5% from the previous amount.

We paid over $14 billion in dividends and equivalents over the last four quarters alone, making us one of the largest dividend payers in the world. Going forward, we continue to plan for annual increases in dividends per share.

As we move ahead into the June quarter, I'd like to review our outlook, which includes the types of forward-looking information that Nancy referred to at the beginning of the call. We expect revenue to be between $52.5 billion and $54.5 billion. This guidance range comprehends 300 basis points of negative foreign exchange impact year-over-year. Also as a reminder, in the June quarter last year, our Services revenue included a favorable $236 million one-time item in connection with the final resolution of various lawsuits.

We expect gross margin to be between 37% and 38%. We expect OpEx to be between $8.7 billion and $8.8 billion. We expect OI&E to be about $250 million, and we expect the tax rate to be about 16.5%. Also reflecting the approved increase, today our Board of Directors has declared a cash dividend of $0.77 per share of common stock, payable on May 16, 2019 to shareholders of record as of May 15, 2019.

With that, I would like to open the call to questions.

Nancy Paxton

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

Question-and-Answer Session

Operator

Certainly. Our first question will come from Shannon Cross with Cross Research.

Shannon Cross

Thank you very much for taking my question. Tim, can you talk a bit more about what you're seeing in China? Clearly, it looks like things are improving sequentially. You also mentioned that last few weeks of the quarter, were stabilizing in emerging markets, I believe. So what are customers saying there and what are your partners saying in China? And then I have a follow-up.

Tim Cook

Yeah. Thanks for the question, Shannon. We're seeing -- in the iPhone space, we saw a better year-over-year performance in the last weeks of the quarter as compared to the full quarter or November and December, which was sort of a -- it appears to be the trough. I think there's a set of reasons for this.

One, we made some price adjustments essentially backing out the weaker currency effect and then some. There's stimulus programs that the government has executed including -- and this happened in early April, VAT being reduced from 16% to 13%, so they've been aggressive in the stimulus side.

Three, our trade-in and financing programs that we’ve implemented in our retail stores have been very well received there, and I'm happy with the results to date there. And then four, there's an improved trade dialog between the U.S. and China. And from our point of view, this has affected consumer confidence on the ground there in a positive way. And so, I think it's a set of all of these things and we certainly feel a lot better than we did 90 days ago.

Shannon Cross

Great. Thank you. And then, I'm sure you're probably expecting a question on Qualcomm settlement. So what would you like to say on this settlement?

How are you thinking about your component providers going forward? And how should we think about this with regard to -- I don't know your development plans in the future because I'm sure you're not going to talk about when you're going to do 5G, but clearly it helps that path. Thank you.

Tim Cook

Yeah. Thank you, Shannon. We're glad to put the litigation behind us, and all the litigation around the world has been dismissed and settled. We're very happy to have a multi-year supply agreement, and we're happy that we have a direct license arrangement with Qualcomm, which was I know important for both companies, and so we feel good about the resolution.

Nancy Paxton

Thank you, Shannon. Can we have the next question, please?

Operator

The next question will come from Samik Chatterjee with JPMorgan.

Samik Chatterjee

Hi. Thanks for taking the question. Tim, you talked about China responding well to these pricing actions that you've taken in that market. Do any of those learnings kind of carry through into how you decide pricing in the remaining emerging markets, like India, et cetera as you get ready for the next product cycle?

Tim Cook

We have made some adjustments in India, and we've seen preliminarily some better results there. Everything that we do does advise everything we do in the future, so we try to learn the best we can and hold [ph] that into our thinking, and we'll obviously do that with this as well.

Samik Chatterjee

Thank you. I just had a quick follow-up for Luca on the Services side. Luca, we see that you're guiding to higher operating expenses quarter-on-quarter. How much of that incremental is going in to support the new services that you're planning to launch later in the year?

Luca Maestri

Yeah. Of course, we are supporting both our products and services business and you can see the trajectory of our OpEx over the different quarters.

Clearly as we add new services, we will need to make the necessary investments to support them.

Our Services business has multiple streams. In total, it is accretive to company gross margins. You've seen the latest -- we're running services margins at over 60%. So, it's a very important business for us in many ways for our ecosystem and for our ability to monetize it. And so, clearly we will make all the necessary investments to ensure that the new services are successful, and we're really encouraged by the level of customer response that we received so far in anticipation for the launch of these services.

Nancy Paxton

Thank you, Samik. Can we have the next question please.

Operator

The next question will come from Katy Huberty with Morgan Stanley.

Katy Huberty

Thank you. Luca, if I look back over the past five years, June quarter revenue typically declines about 15% from the March quarter. You're guiding to an 8% drop this year. So can you just talk about, which regions or product segments you think can outperform that typical seasonality?

Luca Maestri

Yes, Katy. And keep in mind by the way, we are reporting this guidance including a 300 basis point negative impact from foreign exchange, so actually in constant currency the numbers would be even stronger.

At the product category level, we expect that we will continue to have strong revenue growth from the non-iPhone categories as we've had for the first half of our fiscal year. We're also expecting a relative improvement in our iPhone performance on a year-over-year basis in Q3 versus the first half.

As Tim said, March was the strongest month of the quarter on a year-over-year basis and so this has given the confidence to provide the guidance that you've seen. Geographically, of course, as you've seen from our results for the March quarter, China is the geo where we found some challenges, but we believe the trajectory should improve over time.

Katy Huberty

Thank you. And then just as a follow-up, Shannon said you're not going to talk specifics around the timing of the 5G phone, but Tim maybe you can talk about how the company approaches a new technology like this given the higher cost but also potentially significant benefit, how you think about the right timing for coming to market with a product, with those characteristics? And then just generally how meaningful you think 5G is as a demand driver for upgrades in your iPhone installed base? Thank you.

Tim Cook

Katy, this is one that I'm going to largely punt on as you would probably guess. We look at a lot of things on the different technologies and try to look at the -- and select the right time that things come together and get those into products as soon as we can. And the -- certainly from a cost point of view there has been -- the technologies have had cost pressure over the last couple of years or so.

On the flip side of that there's a number of things in the commodity markets going in the other direction at the moment like DRAM and NAND. And so it's difficult to project what happens next, but it's the aggregate of all of it that really matters from a price point of view.

Nancy Paxton

Thank you, Katy. So we have the next question, please.

Operator

Jim Suva from Citi has our next question.

Jim Suva

Thank you very much. A topic that's probably split or shared by both Tim and Luca on a response, but I'll ask the question and you can decide how to divide it up.

In your opening remarks, Tim, you'd mentioned about pricing adjustments that you made in some of the markets and then Luca talked also about the strength of the trade-in program or maybe it was Tim also. Can you help us understand about what type of lessons or elasticity you've learned about pricing and the trade-in programs of how it impacts like revenues and COGS and margins and things? Thank you.

Tim Cook

Yeah. Jim, in the opening remarks I was really talking about China specifically. And I mentioned four things that I believe are responsible for the better year-over-year performance in the Q2 relative to Q1 and also the final weeks of March being better than the Q2 average. And those four are the price reductions, but that's one of them. But there are three others and one of the others is the trade-in and financing programs that we instituted in our retail stores.

Clearly, what we've learned here and it's not a surprise really is that the -- many, many people do want to trade-in their current phone. It does -- from a customer user point of view the trade-in looks like a subsidy, and so it is a way to offset the device cost itself. And many people in literally every market that we've tried this in, there is a reasonable number of people that want to take and pay for something on installments instead of all at once. And so, it's a little different in each market in terms of what the elasticity is, but you can bet that we're learning quickly on all of those.

The other two items that are not insignificant in China that I don't want to lose here is that the stimulus programs, I believe, are having an effect on the consumer. And the one that I got much visibility in -- that happened in early April was the VAT reduction from 16% to 13%, so it's a very aggressive move. But there are other stimulus programs as well that likely have an effect to the consumer level.

And then finally -- and this is not to be under weighted either -- I think the improved trade dialogue between the countries affects consumer confidence in a positive way. And so, I think it's sort of the sum of all of those things.

Luca Maestri

And Jim, if I may add on the gross margin level as we look at pricing actions, of course, anytime you do a pricing action it is gross margin percentage diluted. But what really matters to us and what we look at -- when we look at the elasticity of these programs is to see the impact on our gross margin dollars. And what -- the experience that we've had in a few of these emerging markets has been positive in that respect and so that's what we think matters the most really.

Jim Suva

Thank you so much, gentlemen.

Nancy Paxton

Thank you, Jim. We have the next question, please.

Operator

The next question will come from Wamsi Mohan with Bank of America Merrill Lynch.

Wamsi Mohan

Hi. Yes. Thank you. Tim, you shared a lot of color around trade-ins, but I was also hoping maybe you can characterize what sort of dynamics you're seeing across your installed base on these trade-ins. What type of devices are being traded in? Is the profile of someone who has a really old iPhone? Or are you seeing folks that have newer iPhones trading in? And what sort of incentives are you providing beyond sort of the financing to drive that? And do you see this as something that can accelerate replacement cycles here over the next year or so? And I have a follow-up.

Tim Cook

We're -- actually the product that's being traded in is all over the place, to be honest. It's 6, 6 Plus, 6S, 6S Plus, 7, 7 Plus and then fewer 8 and 8 Plus. But there's some of each of those and so you get customers that are on the two-year cycle and customers -- some customers on the one-year cycle and then customers as well on the three and four-year cycles. And so it's really all over the place.

In terms of the incentives we're offering currently in our retail stores a trade-in value that has -- that is more than the sort of the blue book of the device if you will for lack of a better description. And so we have topped those up to provide an extra benefit to the user.

The installments are different in each geography. I would say that at the moment the geography that is doing the best in installments would be China. And we have a bit of a unique offering there I think versus the -- versus what you can get in the regular market and so that probably further helps there. And so you can bet that we're learning on each of these finding the parts that the user likes the most.

I think the key is we're trying to build a -- build something into the consumer mindset that it's good for the environment and good for them to trade in their current device on a new device. And we do our best of getting the current device to someone else that can use that or in some cases if the product is at an end of life we are recycling the parts on it to make sure that it can carry on in another form.

Wamsi Mohan

Thanks for the color Tim. And as my follow-up Luca can you just clarify if the settlement with Qualcomm is creating either a headwind or a tailwind to your gross margins in the near-term? And does your guidance contemplate incremental pricing actions that could be creating some gross margin headwinds? Thank you.

Luca Maestri

As Tim has explained we've reach this comprehensive agreement with Qualcomm. As part of this we have agreed that we're not going to share the financial terms of the agreement, so we plan to honor that. What you see in our gross margin guidance for the June quarter we guided 37% to 38% fully comprehends the outcome of the agreement with Qualcomm.

Nancy Paxton

Thank you, Wamsi. Could we have the next question please?

Operator

Mike Olson from Piper Jaffray has our next question.

Mike Olson

Thanks for taking my question. So, you have more than 1.4 billion active devices and at your event you announced services that leverage that installed base. And you have obviously a remarkable position with kind of this Trojan horse of devices out in so many households.

So, I guess, the question is and I know some of these services aren't even live yet but should we expect a continuation of the building out of new services categories like what we saw at the March event? Is there a pipeline of new services in the works? Or have we kind of seen what we're likely to see on that front for the near to intermediate term? And then I have a follow-up.

Tim Cook

Yes, I wouldn't want to get into announcing things on the call, but obviously, we're always working on new things. And -- but we're right now we're really focused on getting these four out there. We have the News+ in the market today. We'll have the Apple Arcade and the Apple TV+ products in the market in the fall and Apple Card will go out in the summer timeframe. And so we've got lots in front of us and we're very excited about getting these out there.

Mike Olson

Right. And then you mentioned the App Store search ad business a couple of times in the prepared remarks. Is that reaching a point where it's become material and maybe moving the needle for overall services revenue? Or is there anything you can quantify related to that? I also imagine that this is a high-margin business at least maybe higher than the overall Services margin but wondering if you can confirm if that's the case or not. Thanks.

Tim Cook

It's growing very, very fast Mike. I think it was up around 70% over the previous year. We're expanding into new geographies as well and we still have more geographies out there that we think can move the dial further. So, it is a -- it's definitely a business that is big and getting bigger.

A – Nancy Paxton

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

Operator

Our next question comes from Louis Miscioscia with Daiwa Capital Markets.

Q – Louis Miscioscia

Okay and thank you for taking my question. Tim, when you look at the four things that you have announced. And I realize they have different dates when they're coming out but, which ones would you say over the next 12 months has the most potential to help your Services line? And then maybe, which one has the best long-term potential? And then, I have a quick follow-up.

A – Tim Cook

We're going to wait until we get these things out. And what I can tell you right now is that the -- we're taking sort of consumer interest on the Apple Card and there's been a significant level of interest on that and we're excited. As you know the -- gaming is the top category on the App Store.

And so the Apple Arcade will serve some of that market. And it serves it with a different kind of game, which we think will be great for developers and great for users. The TV+ product plays in a market where it's -- there's a huge move from the cable bundle to over the top.

We think that most users are going to get multiple over-the-top products. And we're going to do our best to convince them that the Apple TV+ product should be one of them.

And then, we're working very hard to get everyone to give Apple News+ a look. Because we think it's a very unique product. And I love magazines. And we have really wanted to support the publishers.

And so, we're working very hard to -- at the -- but at the very beginning of the ramp there. We wouldn't do a service…

Q – Louis Miscioscia

Okay, great.

A – Tim Cook

…that we didn't think could be meaningful. So that's sort of the way I look at it.

Q – Louis Miscioscia

Great.

A – Tim Cook

Yeah, these aren't hobbies.

Q – Louis Miscioscia

Okay. A quick follow-up on India, obviously market share there is well below China. I believe you're looking to start manufacturing there. But what's the -- obviously the potential could be huge but the market already seems to be pretty dominated on the Android side, so maybe if you could just talk about trying to really aggressively ramp up share there. Thank you.

A – Tim Cook

I think India is a very important market in the long-term. It's a challenging market in the short-term. But we're learning a lot. We have started manufacturing there which is very important to be able to serve the market in a reasonable way. And we're growing that capability there.

And we would like to place retail stores there. And we're working with the government to seek approval to do that. And so, we plan on going in there with sort of all of our might.

We've opened a developer, accelerator there, which we're very happy with some of the things coming out of there. It's a long-term play. It's not something that's going to be on overnight huge business. But I think the growth potential is phenomenal.

It doesn't bother me that it's primarily Android business at the moment because that just means there's a lot of opportunity there.