

May 1st, 2020

We listened, (as you may have as well), to Apple's earnings call yesterday. What follows is a summary, our thoughts, and the market's general reactions.

Apple's results for the 2020 2nd quarter was the tale of two periods. According to Tim and Luca, for the first 6 weeks of the quarter, Apple was on track to exceed the upper revenue guidance number of \$67B, as provided during last quarter's earnings call (January 29th, 2020).

Then, the shutdown in mainland China occurred. With the shutdown came the closing of the Apple stores in China, major supply chain disruptions and lower demand worldwide. These factors caused Apple to announce on February 17th that they would not be meeting revenue guidance for the March quarter.

The actual revenue results for the March quarter came in at \$58.3B. Compared to the previous year, revenue actually grew by 1% and earnings were up 4%. Although Apple slightly outperformed compared to last year, pre-China shutdown, their revenue was on pace to grow by over 15.5% Y/Y.

A couple of additional points from the call are as follows:

- Services set another record and grew 14% Y/Y.
- iPhone sales declined by 7% Y/Y.
- Mac sales declined by 3% Y/Y.
- App Store revenue grew by strong double digits.
- 3rd party App Store revenue grew by 30% Y/Y.
- Apple's paid subscriptions grew to 515 million.
- 75% of Apple Watch purchases were by new customers.
- Company net cash (Total cash and marketable securities – debt) stands at \$83B.
- Stock dividend was increased by 6% per share.

Due to the uncertain nature of the Coronavirus crisis, Tim and Luca did not provide any specific guidance numbers for the next quarter. However, they did provide some general color on expectations and observations:

- iPhone and Wearables revenue to decline on a quarter by quarter basis.

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- AppleCare and advertising revenue to decline.
- A decline of revenue by \$1.5B due to the strong dollar.
- An improvement in iPad and Mac sales for the June quarter.
- Improvement in store foot traffic in China, but still not at pre-COVID levels.

As of 7:17 a.m. Apple stock price is \$296.7 per share, up nearly 1% due to Y/Y business growth in spite of the COVID-19 economic drag.

Please don't hesitate to contact us with any questions, concerns, or specific issues regarding your Apple holdings.

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