

HAYES

FINANCIAL, INC.

An Independent Firm

January 30th, 2019

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.

The release of results for Apple's Q1' 2019 quarter have been highly anticipated. Apple's Q4' 2018 quarter was a record quarter but there was growing concern that iPhone growth was declining.

First, the backdrop. A few weeks after the Q4' 2018 results (released on 11/1/18), 4 suppliers for Apple reported a reduction in their revenue estimates. They not-so-vaguely blamed it on "[demand changes from a major consumer customer.](#)" This, along with other factors, caused a 31.9% decline in AAPL stock from October 3rd – December 31st.

Then, on January 2nd, Tim Cook wrote a [letter](#) to Apple investors. In this letter, he communicated that Apple was revising their numbers for the first quarter of 2019 and the stock price dropped 9% that day alone.

Back to yesterday's release, Apple stated that overall revenue for the first quarter was \$84.3 billion, producing a year over year (Y/Y) decline of almost 5%. iPhone revenue was down 15% (Y/Y). Apple provided the following causes for the disappointing quarter:

- They did not foresee the economic deceleration in Greater China.
- The strong U.S. dollar caused a Y/Y reduction in revenue growth by 2%.
- There were fewer iPhone upgrades than expected. Likely due to the dwindling carrier subsidies and the reduced pricing for iPhone battery replacements.

Although Apple did not meet guidance, they did highlight several positives regarding their business. They are as follows:

- Services revenue grew by 19% Y/Y – \$10.875B for the quarter.
- Aside from the iPhone, revenue grew Y/Y in every product category.
- A record installed base of 1.4 billion devices.
- Wearables revenue up \$1.8B Y/Y.
- 360 million paid subscribers, up 120 million for the quarter.

Tim and Luca stressed the importance of their installed base several times on the call. Assuming the Services business maintains its historical growth rate, it would match this quarter's iPhone revenue 9 years from now.

As of 7:03 a.m. Apple stock is trading up 3.7% due to the above results and a forecast that is better than investors feared.

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

www.hfinancial.com

99 Almaden Blvd, Ste 730. San Jose, CA 95113 • 408-947-7321 • Fax 408-947-7328
Toll Free 866-607-7321 • contact@hfinancial.com

HAYES

FINANCIAL, INC.

An Independent Firm

Hayes Financial, Inc. is a registered investment advisor located in San Jose, California. Information throughout this report is obtained from sources which we and our suppliers believe to be reliable. This information should not be construed, in any manner whatsoever, as the receipt of, or a substitute for, personalized individual advice from Hayes Financial, or from any other investment professional.

www.hfinancial.com

99 Almaden Blvd, Ste 730. San Jose, CA 95113 • 408-947-7321 • Fax 408-947-7328
Toll Free 866-607-7321 • contact@hfinancial.com