

HAYES

FINANCIAL, INC.

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

Apple's results for the 2016 fourth quarter were generally in-line with expectations, as the company posted quarterly revenue of 46.9 billion, gross margins of 38% and quarterly net income was of \$9 billion, or \$1.67 per diluted share. Apple's revenue has grown by 11% since Q3 2016. The majority of this revenue growth came from iPhone revenue as that segment has seen growth of 7% since Q3 2016.

Year over year (hereafter referred to as Y/Y) change saw revenue decline by 9%. Most significantly, revenue in China decreased Y/Y by 30%, but the Apple's services businesses grew by 24% over the same Y/Y period.

Apple Services Business:

- Revenue has doubled in the last 4 years
- Growth of 24% Y/Y, from \$5.9 billion to \$6.3 billion
- Services businesses now account for 13.5% of total revenue for the Q4' 16 quarter.

Headwinds:

- 2/3rds of Apple's revenue is derived outside the U.S. Because the U.S. dollar has appreciated 15% over the past 2 years it negatively affected margins by 3.4%.
- iPhone sales account for 60% of the company's revenue and the company saw a 13% decline on iPhone sales on Y/Y basis.

Apple stock is trading down this morning due to the first Y/Y revenue decline in 15 years. Revenue declined from \$51.5 billion in Q4 '15 to \$46.8 billion as reported yesterday. This is attributable to a 30% decline in the Chinese market. Finally, expectations for more robust sales during the holiday season remain high as the company's most common period of outperformance is historically captured during the upcoming quarter.

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

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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