

AAPL

Earnings Insights

Q2 2017





SUMMARY OF APPLE (AAPL) EARNINGS REPORT

AAPL Q2 2017 Highlights

Net Sales

Reported

\$52.89B
(+5% YoY)

Consensus

\$53.02B

Operating Income

Reported

\$14.10B
(0.79% YoY)

Earnings Per Share (EPS)

Reported

\$2.10
(+11% YoY)

Consensus

\$2.02

AAPL Q2 2017 Highlights Continued

iPhone Unit Sales

Reported

50.76M
(-1% YoY)

Consensus

51.4M units

Cash Pile

Reported

\$257B

93%

outside the US

Gross Margins

Reported

38.9%
(-3.36% YoY)

Consensus

38.7%

Apple Earnings Call Summary

Services Segment

Wall Street has treated Apple as a hardware company until the Services segment started growing. Q2 revenue for Services was at \$7.04Bn and is growing at an annual rate of 18%.

Management is encouraged by double digit growth in paid subscriptions and has seen YoY App Store revenue growth of 40%.

Services is a high margin segment and management attributed the small margin beat (38.9% vs consensus 38.7%) to growth in Services. Analysts are watching this segment closely and if growth pans out, it could contribute significantly to Apple's future revenues.

Management believes Services revenue will double in 4 years and has seen strong growth in paid subscriptions that now exceed 165 million. In Q1 2017, paid subscriptions were 150 million and grew 15 million in 90 days. However management declined to reveal the number of unique subscribers since each subscriber can subscribe to multiple services.

Capital Allocation Strategy

Apple will return another \$50Bn to investors. It will do share buybacks of \$35Bn and also hiked **quarterly** dividend rate by 10.5% from \$0.57 to \$0.63.

Apple started returning capital in August 2012 and till March 2017, it has returned over \$211Bn to shareholders including \$151Bn in share repurchases.

When asked about management's plan for the repatriation of \$239.Bn overseas cash provided Congress gets tax overhaul done, management declined to share their plans and have a wait and see approach to what happens in Congress.

Apple Earnings Call Summary Continued..

iPhone Sales

In Q2 2017, YoY unit sales for iPhones fell 1% but the revenue increased 1% due to strong demand for iPhone 7 Plus sales. Management expects a pause in iPhone purchases as people wait for iPhone 8, expected in the latter part of 2017.

In 4 out of 5 operating segments, management saw very good growth primarily due to the strong demand for iPhone 7 Plus. Management also saw the highest percentage of **upgraders ever** in first half of 2017 and the largest number of absolute switchers outside of greater China.

Speaking about the sales drop in Greater China, Tim Cook mentioned 3 headwinds:

- Currency devaluation of 5%
- Weak performance in Hong Kong due to tourism slump
- Poor performance of previous generation iPhones despite strong performance of iPhone 7 Plus

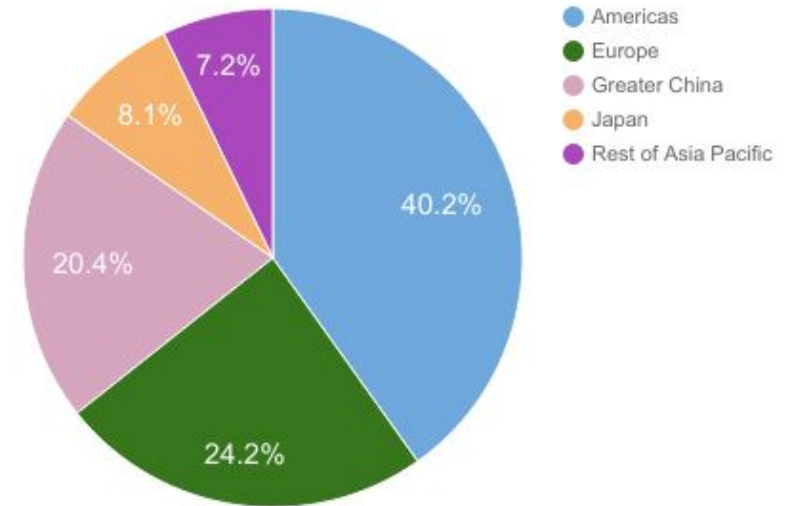
Management sees India as the next growth market and has invested heavily to leverage the growing middle class and favorable demographics.

Revenue By Geography

Segments	Q2 2017 (\$B)	Q2 2016 (\$B)	YoY Growth
Americas	21,157	19,096	11%
Europe	12,733	11,535	10%
Greater China	10,726	12,486	-14%
Japan	4,485	4,281	5%
Rest of Asia Pacific	3,795	3,159	20%
Consolidated Sales	52,896	\$50,557	5%

iPhone sales have been under pressure in China and Tim Cook gave 3 reasons on the call: 5% currency devaluation, weak sales in Hong Kong due to slow tourism & fewer sales of previous generation of iPhones despite strong iPhone 7 Plus sales.

Q2 2017 Revenue By Geography



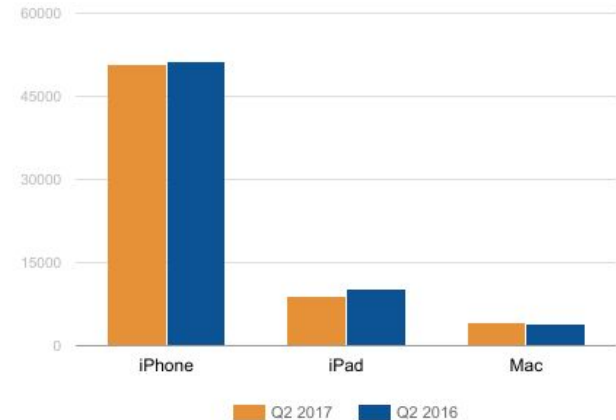
Unit Sales By Products

Products	Q2 2017	Q2 2016	YoY Change
iPhones	50,763	51,193	-1%
iPad	8,922	10,251	-13%
Mac	4,199	4,034	4%

The key takeaway is that iPad has 81% share of the U.S. market for tablets that are priced above \$200 and the overall customer satisfaction with iPads ranges from 95% to 100%. [Slide 9](#) shows iPads contributed only 7.4% to Apple's Q2 2017 revenue.

The key driver of Apple's revenue is iPhones as seen in [slide 9](#). While unit sales fell by 1%, YoY revenue increased 1% due to strong demand for higher priced iPhone 7 Plus.

Unit Sales By Product

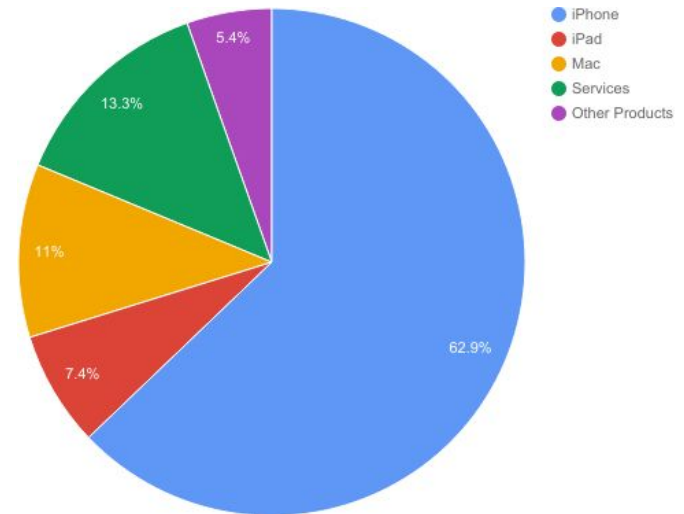


Revenue Breakdown By Product

Revenue Breakdown	Q2 2017 (\$B)	Q2 2016 (\$B)	YoY Growth
iPhone	33,249	32,857	1%
iPad	3,889	4,413	-12%
Mac	5,844	5,107	14%
Services	7,041	5,991	18%
Other Products	2,873	2,189	31%

The key takeaway is the YoY 18% growth in Services. Management believes they can double Services revenue in 4 years and expect to growth at 18% clip going forward. Services is a high margin category for Apple and was responsible for the slight gross margin beat of 0.2% this quarter (see [slide 3](#)).

Q2 2017 Revenue Breakdown By Product



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