

Apple profits edge higher despite lower iPhone sales

August 3 2023



Strong services revenue lifted Apple profits despite lower iPhone sales.

Apple reported modestly higher quarterly profits Thursday despite another dip in revenues, as a record performance in services offset lower iPhone sales.

Besides services, executives spotlighted increased sales in China and several key emerging markets that helped to compensate for declines in the United States where iPhone sales have ebbed in a saturated smartphone environment.

Overall iPhone sales lagged analyst estimates.

"We did exceptionally well in emerging markets," said Chief Executive Tim Cook on a conference call, highlighting year-over-year gains in China after the prior quarter had seen a decline in the same comparison.

Profits for Apple's third fiscal quarter were \$19.9 billion, up 2.3 percent from the year-ago period. Revenues again declined, this time by 1.4 percent to \$81.8 billion, the third straight quarter with a year-over-year decline.

Bright spots in the quarter for the tech giant included an "all-time high" in services revenue from the App Store, Apple Pay, Apple TV and other subscription services.

Chief Financial Officer Luca Maestri pointed to "across the board gains" in services in explaining the 8.2 percent jump to \$21.2 billion.

Revenues also climbed in wearables. Maestri said strong gains in China in the Apple Watch showed improving engagement in Apple's "ecosystem."

But Apple suffered a 2.4 percent drop in iPhone sales, which account for nearly half of total revenues. The company also experienced declines in revenues from the Mac and iPad.

Apple saw strong iPhone sales gains in several emerging markets including in Southeast Asia, the Middle East and Latin America, but

sales fell in the United States, where the "smartphone market has been in decline," Maestri said.

Asked about Apple's artificial intelligence strategy, Cook described AI and machine learning as "core fundamental technologies that are integral to virtually every product that we build."

He cited crash detection and other iPhone programs as technologies that "wouldn't be possible without AI and machine learning." Crash detection presents a user with a prompt for an emergency call if a severe collision is picked up.

"We've been doing research across a wide range of AI technologies, including generative AI for years," Cook said. "We're going to continue investing and innovating and responsibly advancing our products with these technologies, with the goal of enriching people's lives."

Mixed outlook

Looking ahead, Apple predicts a similar drop in revenue in the September quarter, with foreign exchange again a headwind.

Performance in that period will improve in iPhone and services, but double digit declines in Mac and iPad, in part due to outsized sales in these areas in the September 2022 period, Maestri said.

CFRA Research analyst Angelo Zino described China as a "positive surprise" and noted Apple's gross profit margins came in at their highest level in more than a decade.

Insider Intelligence senior director of briefings Jeremy Goldman said the report "underscores (Apple's) strategic shift towards services as a core offering," according to a note.

"The company continues to face headwinds caused by waning growth in the smartphone market. Given their high prices, consumers expect quite a lot from these devices, and while Apple continues to deliver high-quality products, it's becoming increasingly difficult to entice customers to replace their devices as frequently."

Shares of Apple fell 2.4 percent to \$186.65 in after-hours trading.

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