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Apple (AAPL) 2Q17 Results: Beats on EPS, 3Q Guidance Below Consensus

Figure 1. Apple 2Q17 Key Metrics

	2Q17	2Q16	YoY Change
Revenues (USD Bil.)	\$52.9	\$50.6	4.6%
Gross Margin	38.9%	39.4%	(48) bps
SG&A/Sales	7.0%	6.8%	26 bps
Operating Margin	26.7%	27.7%	(102) bps
EPS	\$2.10	\$1.90	10.4%

Source: Company reports

- **Apple reported 2Q17 EPS of \$2.10, up 10.4% year over year and beating the consensus estimate of \$2.02. Revenues were \$52.9 billion, up 4.6% year over year and slightly below the \$53.1 billion consensus estimate.**
- **The company sold 50.8 million iPhones in the quarter, below the consensus estimate of 52.3 million units. iPad units sold decreased by 13% year over year and Mac units sold increased by 4%. Services revenue was \$7.0 billion, up 18% year over year.**
- **Apple guided for 3Q17 revenues of \$43.5–\$45.5 billion, below the consensus estimate of \$45.6 billion. The margin and expense ranges provided result in an EPS range of \$1.42–\$1.61, below the consensus estimate of \$1.62.**

2Q17 Results

Apple reported 2Q17 revenues of \$52.9 billion, up 4.6% year over year. Revenues were in line with guidance of \$51.5–\$53.5 billion but slightly below the \$53.1 billion consensus estimate. Management cited robust demand for the iPhone 7 Plus and strong customer response to the iPhone 7 (Product) Red Special Edition, as well as strength in the services business. Currency rates and an iPhone channel inventory reduction hurt revenues by \$1 billion.

In the quarter, Apple sold 50.8 million iPhones, slightly below the consensus estimate of 52.3 million units and down 1% year over year. Quarterly iPhone revenues totaled \$33.2 billion, up 1% year over year.

Apple sold 8.9 million iPads in the quarter, in line with the consensus estimate, but down 13% year over year. iPad revenues were \$3.9 billion, down 12% year over year.

Apple sold 4.2 million Macs in the quarter, in line with the consensus estimate and up 4% year over year. Mac revenues were \$5.8 billion, up 14% year over year.

Services revenue, which includes revenue from Digital Content and Services, AppleCare, Apple Pay, licensing and other services, was \$7.0 billion, up 18% year over year.

Revenue from other products, which include the Apple TV, Apple Watch, Beats products, iPod and Apple-branded third-party accessories, was \$2.9 billion, up 31% year over year.

EPS was \$2.10, up 10.4% year over year and beating the consensus estimate of \$2.02.



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Additional Details from the Quarter

CEO Tim Cook offered the following additional details from the quarter:

iPhone

- Demand for the iPhone 7 Plus continues to be robust. Customer response to both models of the new iPhone 7 (Product) Red Special Edition was characterized as “great.”

Mac

- Apple gained market share in the quarter due to strong demand for the new MacBook Pro.

iPad

- Apple updated its most popular sized iPad with a brighter Retina display at a more affordable price, and the company characterized customer response to date as “very strong.” The company believes it gained share in the quarter in the US, Japan and Australia.

Apple Watch

- Apple Watch sales nearly doubled year over year in the quarter, and it remains the world’s best-selling smartwatch.
- The company commented that the combined revenue for Apple Watch, AirPods and Beats headphones in the last four quarters was equal to that of a Fortune 500 company.

Geography and Apple Stores

- Apple saw strong double-digit revenue growth in Greater China from both Mac and Services during the quarter. Mainland China retail store revenue was up 27% over last year and comp store revenue was up 7%.
- March quarter revenue in India set a record, growing by strong double digits.
- With its most recent store opening in Dubai, Apple now has 495 retail locations worldwide.

Online App Store, Music Store and Apple Pay

- App Store momentum was described as “terrific,” and revenues grew by 40% year over year to reach a new quarterly record.
- Revenue from Apple Music subscriptions and iCloud storage grew by double digits, and growth in the total number of paid subscriptions for Apple services and third-party content was described as “strong.”
- Paid subscriptions now exceed 165 million.
- Apple Pay launched in Taiwan and Ireland in the quarter, and the service is now live in 15 markets with more than 20 million locations, including more than 4.5 million locations in the US.
- Consumers can now send a Starbucks gift card via iMessage with just a touch.

Services

- Services revenue exceeded \$7 billion for the second consecutive quarter.



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3Q17 Outlook

Apple guided for 3Q17 revenues of \$43.5–\$45.5 billion, up 2.7%–7.4% year over year, but below the consensus estimate of \$45.6 billion.

The margin and expense ranges provided result in an EPS range of \$1.42–\$1.61, below the consensus estimate of \$1.62.



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