

# Apple talks services amid drop in iPhone sales, profit

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With iPhone sales and profits sliding, Apple on Tuesday sought to highlight its growth in services as it seeks to reduce dependence on its main cash driver.

In its quarterly update, Apple said profits slumped 27 percent from a year ago to \$7.8 billion on a sharp drop in iPhone sales.

Apple sold 40.4 million iPhones in the quarter ending June 25, down 15 percent from a year earlier, highlighting concerns over growth for the company's iconic smartphone.

It was the second straight quarter of slumping iPhone sales for the company, which until then had seen uninterrupted growth.

Overall revenue was down 15 percent from a year ago at \$42.4 billion for Apple, which is the world's most valuable company.

Chief executive Tim Cook said the results showed "stronger customer demand and business performance than we anticipated at the start of the quarter."

Investors appeared to be reassured by the results, which were generally better than expected.

Apple shares rose 6.1 percent in after-hours trade to \$102.61.

The results underscored the challenges for Apple, which has built a huge business around the iPhone but is unlikely to see continued growth, due to a saturated smartphone market and increased competition.

The company said its iPad unit sales meanwhile fell nine percent from a year ago, but revenues rose due to the launch of higher-priced tablets. Mac sales were down 11 percent.

Apple said its services revenue rose 19 percent year-over-year.

"The growth was broad-based with App Store revenue up 37 percent to an all-time high," Cook said in a conference call.

Cook said the company has seen success with its lower-priced iPhone SE launched earlier this year, aiming to win over more cost-conscious customers.

"We had a very successful global launch of iPhone SE and demand outstripped supply throughout the quarter," Cook said.

"Our sales data tells us that the iPhone SE is popular in both emerging and developed markets."

## **Trouble in China**

Apple's report showed a sharp drop in revenue from China, which reverses gains since it began selling its iPhones there.

Revenue from "Greater China" slumped 33 percent from a year ago to \$8.8 billion.

"China was a major letdown and I'm anxious to get more details as to what specifically drove the declines," said Patrick Moorhead of Moor

## Insights & Strategy.

"Samsung and Huawei are much more competitive now versus a year ago and the Chinese economy is not doing well at all, all potentially contributing to the decline. Apple is clearly investing in India to diversify their emerging region performance."

Some analysts say Apple needs to move quickly to diversify its product base to keep growing.

"Since Apple makes about two-thirds or more revenues on its iPhone sales, declines are particularly troubling there," said Jack Gold, a technology analyst at J. Gold Associates.

Apple is moving into new areas such as Apple TV and streaming music which could produce more stable revenues but so far these areas have had minimal impact.

Apple has not revealed sales data for its Apple Watch but analysts say it is the leading smartwatch despite a slump in sales over the past quarter.

Research firm IDC reported last week that Apple Watch global sales were down 55 percent from a year ago to 1.6 million units, but that this still allowed Apple to capture 47 percent of the market.

Some analysts are skeptical on Apple's ability to keep its momentum in the face of sluggish iPhone sales.

the latest results are "characteristic of a company that, while still highly successful, has simply lost the edge that once persuaded consumers to continually upgrade and buy into more expensive pieces of kit," said Neil Saunders of the research firm Conlumino.

Apple "needs either a radical step change in its existing product line-up or needs to come up with a completely new device that creates a whole new market," Saunders said in a research note.

"This is easier said than done, but there are emerging areas of technology—like virtual reality—where Apple should be at the forefront of developments."

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