

Apple profit stable as service gains offset iPhone slump

January 30 2019, by Glenn Chapman



Apple met its recently lowered guidance for the most recent quarter, sparking a rally in after-hours trade

Apple said Tuesday that profits held steady in the most recent quarter, with revenue growth in music, movies, apps and other services offsetting

slumping iPhone sales, sparking a rally in shares of the California tech giant.

Profit in the final quarter of last year was \$20 billion—a dip of less than one percent—on revenue of \$84.3 billion, even as money from iPhone sales was down 15 percent from the same period in 2017.

The full extent of the slump in iPhone sales was not clear because Apple for the first time stopped reporting unit sales for its iconic smartphones.

Overall revenue for Apple dipped nearly five percent from a year ago, in line with the lowered guidance earlier this month that stunned the market and hammered shares of the iPhone maker.

"While it was disappointing to miss our revenue guidance, we manage Apple for the long term, and this quarter's results demonstrate that the underlying strength of our business runs deep and wide," chief executive Tim Cook said in the earnings release.

The update for Apple's first fiscal quarter to December 29 was greeted with relief on Wall Street, as shares rallied 5.75 percent in after-hours trade.

Pressure to diversify

Apple had been under pressure to show it can weather the slump in the global smartphone market and diversify its revenue base, and the latest results appeared to satisfy the market.

Services revenue reached an all-time high of \$10.9 billion, up 19 percent over the prior year. Apple also boosted sales of wearables and accessories by 33 percent from last year.

Cook has long emphasized the potential of that side of Apple's business.

"Our active installed base of devices reached an all-time high of 1.4 billion in the first quarter, growing in each of our geographic segments," Cook said.

"It's driving our Services business to new records thanks to our large and fast-growing ecosystem."

An Apple streaming music service launched in mid-2015 now boasts more than 50 million subscribers.



Apple said revenue from iPhone sales dropped by 15 percent from a year ago but did not offer details on unit sales

And the California-based company looks to build momentum for its Apple TV [service](#), with deals to have it installed on television models coming out this year.

During the earnings call, Cook confirmed that Apple plans to produce its own shows in a move that could challenge streaming television giants Netflix and Amazon Prime, which have invested heavily in [original content](#).

"We will participate in the original content world," Cook said while discussing Apple's plans for video content.

"We have signed a multi-year partnership with Oprah," he said, adding that Apple has hired "some great people" whom he is confident in.

Losing steam?

Apple took a hit in the "Greater China" region, where revenue plunged almost 27 percent, which had been expected following the company's latest revenue warning.

While Apple appeared to avoid the worst with its latest results, the long-term outlook is less certain, some analysts say.

"While Apple is still a money-making machine, today's uncharacteristic revenue decline symbolizes a company that is starting to run out of steam," said Neil Saunders of the research firm GlobalData Retail.

"In our view, this is something to be corrected, not least because Apple is a costly company to run and it relies on strong [revenue growth](#) to drive up the bottom line."

Cook contended weak economic conditions in China hurt iPhone sales,

but said Apple had record services [revenue](#) there despite game apps facing difficulties getting approved by regulators.

Saunders said the problems with iPhone sales and China pose significant threats to Apple's future.

"Apple is fortunate in having a strong base of fans and many consumers who are bought into its ecosystem of services," Saunders said.

"But without device innovation, even this will be insufficient to maintain iPhone market share in the face of rising competition."

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