

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <https://www.djreprints.com>.

<https://www.wsj.com/articles/apple-posts-drop-in-quarterly-revenue-and-profit-11548797780>

TECH

# Apple's Revenue and Profit Drop: 'The iPhone Has Matured'

Revenue for iPhone declined 15% for the quarter; revenue from other products and services grew 19%

*By Tripp Mickle*

Updated Jan. 29, 2019 7:35 p.m. ET

Apple Inc. [AAPL -1.04% ▼](#) posted its first holiday-quarter decline in revenue and profit in over a decade and warned the slowdown in its core iPhone business and weakness in China has spilled into this year.

The company's revenue dropped 4.5% to \$84.31 billion for the three months ended Dec. 29, while its profit fell slightly, to \$19.97 billion. Apple has been stung at home by smartphone owners' increasing reluctance to upgrade to pricier devices and by competition in China from lower-priced, feature-rich phones. Its iPhone sales fell 15% in the quarter.

The underwhelming report on Tuesday extends one of Apple's most tumultuous periods under Chief Executive Tim Cook. Its month began when he unexpectedly slashed Apple's revenue forecast for the first time in more than 15 years, sparking investor fears about growth.

Aside from the setbacks to the business, Apple is also scrambling to fix a technical glitch in its FaceTime video-chat system that let callers eavesdrop on users of iPhones, iPads and Macs. The bug, which was exposed on social media Monday, is an embarrassment to a company that has touted its commitment to privacy.

Amid the turmoil, Mr. Cook projected confidence on the earnings call. "Macroeconomic factors will come and go, but we see great upside in continuing to focus on the things that we can control," he said.

The CEO, who is usually reluctant to discuss future products, said the company has a strong pipeline of products and services with new announcements slated for later this year. "Apple innovates like no other company in the world and we are not taking our foot off the gas," Mr. Cook said.

Apple's shares fell 1% during the day but jumped nearly 6% to \$163.50 in after-hours trading. The stock is down about 30% since hitting a peak in early October, and the company has since ceded its position as the world's most valuable company to both Amazon.com Inc. and Microsoft Corp.

The after-hours increase lifted shares that have underperformed this year relative to the other technology giants, which are less dependent on China for sales. Shares of Amazon, Microsoft and Alphabet Inc. have risen this year, helping reverse some of the heavy losses the tech sector suffered late last year as revenue growth slowed and controversies over the responsibility of internet platforms intensified.

Apple's greatest challenges are twofold: Ignite sales of an iPhone business that makes up nearly two-thirds of its sales, and drive enough growth in smaller businesses such as services and wearables to offset a maturing smartphone market.

Customers have been reluctant to pay up for flagship iPhones that have risen in starting price by more than 50% in recent years to nearly \$1,000. Demand for the iPhone XR, a lower-priced option released in October, has fallen short of the company's expectations, forcing it to slash production.

Sales of the iPhone, which accounts for two-thirds of total revenue, fell to \$51.98 billion from \$61.1 billion a year earlier.

"They're in a bit of a midlife crisis," said Steve Milunovich, an analyst at Wolfe Research, an equity research firm. "The iPhone has matured. Patience is required."

The iPhone woes were particularly pronounced in Greater China, where Apple's total sales fell 27% to \$13.17 billion. Local smartphone rivals like Huawei Technologies Co. and Xiaomi Corp. are increasingly releasing competitive phones at lower prices, while WeChat, an all-in-one app for messaging, payments and more, reduces the difference between Apple's iOS and Android.

Apple also is grappling with a broader economic malaise in Greater China, a market that includes Hong Kong and Taiwan and accounts for one-fifth of total sales. In 2018, China's economic expansion slowed to its weakest pace in nearly three decades, as the trade fight with the U.S. exacerbated a downturn in big-ticket investments, property sales and retail business.

Those micro- and macroeconomic factors in China contributed to iPhone shipments falling 22% to 11 million units during the three months ended in December, according to Strategy Analytics, a market research firm. Similar factors have cut into the revenue prospects of other technology firms, including Samsung Electronics Co., Intel Corp. and Nvidia Corp.

The downturn in China caught Apple by surprise in November and December, Apple finance chief Luca Maestri said. He expects the weak economic conditions there to continue to pose challenges for the company.

Mr. Maestri said the strength of the U.S. dollar has increased iPhone prices overseas, making the cost of the newest handsets pricier than they are in the U.S. For example, in China, he said the yuan weakened 9% relative to the dollar, crimping sales.

“We’re seeing fewer upgrades than in the past,” Mr. Maestri said. He added that the company has lowered the price of the iPhone XR in China to negate the effect of currency changes.

Apple expects revenue of \$55 billion to \$59 billion for the March quarter, below the average consensus estimate of \$59.98 billion, according to FactSet. Analysts expect the number of iPhones sold in the March period will decline at the steepest level in the company’s history.

Strong performance of Apple’s other businesses is accentuating Apple’s iPhone dependency. Sales of Macs, iPads, Services and other products rose by 19%.

Growth of Apple’s services business slowed during the period, stoking investor concern about a business that has been a bright spot amid soft iPhone demand. The segment, which includes app-store sales, streaming-music subscriptions and insurance on devices, increased its revenue 19% to \$10.88 billion, a deceleration from six quarters of more than 20% growth

Mr. Maestri said the business was affected by a slowdown in app sales in China, where the government is approving new games, and a deceleration in AppleCare, insurance the company offers on new devices.

As the company pushes to increase its services revenue, it has emphasized the digital privacy of its products over technology peers. The FaceTime bug allowing users to access the microphones of other Apple devices, however, showed that it is vulnerable to privacy shortcomings.

Messrs. Cook and Maestri didn’t address the bug during their call with analysts. Apple disabled the Group FaceTime feature late Monday and said it expects to release a software fix this week.

Apple said total active devices increased 8% last year to 1.4 billion, a deceleration from the more than 15% compounded annual growth rate between 2015 and 2018. The company for the first time disclosed that iPhones accounted for 900 million of its active devices, an increase of 75 million last year.

Mr. Maestri said the company is on track to hit its goal of \$50 billion in total services revenue by 2020. “We think the business will continue to grow nicely going forward,” he said.

—*Amrith Ramkumar contributed to this article.*

**Write to** Tripp Mickle at [Tripp.Mickle@wsj.com](mailto:Tripp.Mickle@wsj.com)

---

## READ MORE

---

- [Live Blog: Apple Q1 2019 Earnings and Conference Call \(Jan. 29\)](#)
- [Teenager and His Mom Tried to Warn Apple of FaceTime Bug \(Jan. 29\)](#)
- [Apple Bug Enables Eavesdropping on FaceTime Users \(Jan. 29\)](#)
- [Apple Set to Delve Into Disappointing December Quarter \(Jan. 29\)](#)
- [Apple's Stock Drops on Revenue Warning \(Jan. 3\)](#)

Copyright © 2019 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <https://www.djreprints.com>.