

TECH

Apple Posts Record Revenue on Strong iPhone, App Sales

Devices and services linked to iPhone help fuel surge



The iPhone remains Apple's core product, but the company is working hard to foster its services businesses. PHOTO: FLORENCE LO/REUTERS

By *Tripp Mickle*

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Apple Inc. [AAPL 2.83%](#) ▲ has shaken free of last year's iPhone slump, posting record revenue and a return to profit growth in the latest quarter behind strong sales of its flagship smartphone as well as apps and AirPods wireless earbuds.

The tech giant reported revenue rose 9% in the December quarter to \$91.82 billion, driven by blossoming sales of devices and services connected to the iPhone such as smartwatches and streaming-TV subscriptions. Sales of iPhones, which account for more than half of its revenue, rose 8% to \$55.96 billion.

Shares of Apple, which have more than doubled over the past year, rose 1.5% in after-hours trading.

Apple executives said they expect the robust sales growth to continue in the current quarter, though they acknowledged the coronavirus outbreak had introduced some uncertainty in China, its second most-important market and the country where most of its products are manufactured.

Chief Executive Tim Cook said Apple is limiting travel to China because of the health crisis and has reduced store operating hours in the country. He said Apple has alternatives to its suppliers in Wuhan, the region at the center of the outbreak. Factories outside the region have pushed back plans to reopen after the Lunar New Year to Feb. 10 from the end of January, he said.

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pany's guidance for record fiscal second-quarter revenue of \$63 billion to \$67 billion represents a wider-than-normal range due to the uncertainty. Apple counts on China for nearly a fifth of its sales and relies on its workforce to assemble most of the iPhones, iPads and Macs it sells around the world.

The results for its fiscal first quarter marked a return to form for Apple, which last year failed to report a quarterly revenue record for the first time since the iPhone's 2007 release. A year ago, it slashed its guidance for the first time in more than 15 years. An iPhone sales slump and an economic downturn in China led to the company's first decline in fiscal-year revenue since 2016.

Apple snapped out of a slowdown in its smartphone business by introducing new services and accessories that would appeal to owners of the 900 million iPhones world-wide. The addition of a credit card and video-subscription service helped increase sales of services 17% in the latest quarter, the company said. Meanwhile, the introduction of the \$250 AirPods Pro with noise cancellation helped fuel a 37% surge in the company's wearables business, which also includes smartwatches and iPods.

“Demand for AirPods continues to be phenomenal, particularly for our new addition AirPods Pro,” Mr. Cook said during a call with analysts.

The growth in both those businesses has energized investors and helped the company's stock record one of the biggest one-year rallies in history. Apple's share price has more than doubled from last year's low, adding more than \$725 billion to its value, well above the total value of Facebook Inc.

“This is continued evidence that services can transform the company,” said Mark Stoeckle, chief executive of Adams Funds, a Baltimore-based investment firm with \$2.5 billion under management that counts Apple among its largest holdings. “Tim Cook has brought out products that have not only added to revenue and earnings but done so within an ecosystem where that cash cow—the iPhone business—has been the beneficiary.”

Net income for the latest period rose 11% to \$22.24 billion, marking Apple's first quarterly profit increase in more than a year and a new company record. Per-share earnings for the quarter

were \$4.99; analysts surveyed by FactSet had expected \$4.54.

Additional cameras on the three phone models released in September and a \$50 price cut on the base model helped the iPhone business return to growth. Still, iPhone sales were below the company's December-quarter peak of \$61.1 billion two years ago.

To give a jolt to its smartphone business, Apple plans to release a low-price iPhone this year that is expected to be an update to the \$399 SE model it first released in 2016. It also is expected to release its first 5G iPhones in the fall, offering a new generation of wireless speed that has Wall Street analysts forecasting a return to iPhone shipment growth in 2021.

Sales in Greater China, which includes Hong Kong and Taiwan, rebounded in the December quarter, rising 3% after a yearlong decline. Apple's sales in the region of apps, as well as smartwatches and iPads, continue to grow, even as the iPhone business is challenged by Chinese rivals and a broad slowdown in smartphone sales.

Apple blunted the challenge to its iPhone business and gained market share by reducing iPhone 11 prices, Canalsy said. The firm predicted unit sales will improve with the release of a 5G iPhone in China.

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“Tim Cook has made a huge bet on China, so Apple is more vulnerable than most companies on the sale and supply-chain side,” said Steve Milunovich, technology strategist at Wolfe Research. He said that Apple could manage any loss in sales from

people shopping less over the Lunar New Year because of the viral outbreak but would face a “worst-case scenario” if production was disrupted at factories.

In the Americas, Apple's largest geographic segment, services helped deliver a 12% increase in sales. The company launched its credit card and Apple TV+ streaming service in the U.S. in the second half of last year.

The company didn't provide subscription numbers for its Apple TV+ video service. Launched in November with a price of \$4.99 a month, its marquee drama, “The Morning Show,” starring Jennifer Aniston, Reese Witherspoon and Steve Carell, was nominated for a Golden Globe, but other planned releases such as a film and documentary have been challenged by controversy over their subject matter.

Mr. Cook said in a statement that the number of active Apple devices world-wide rose to 1.5 billion from 1.4 billion a year ago. The 7% increase represents a deceleration in growth from prior years, but shows that Apple is continuing to increase its customer base as it aims to sell more services.

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