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Stoxx 600 **367.02** 1.09% ▲

Nikkei **22243.66** 2.56% ▲

U.S. 10 Yr **-10/32 Yield** 3.172% ▼

Crude Oil **63.52** -0.27% ▼

Euro **1.1439** 0.25% ▲

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TECH

Apple Reports Record Results but Weak Revenue Outlook

Financial chief says forecast reflects earlier release of priciest iPhone, emerging markets, forex; shares fall in after-hours trading



Apple in August became the first U.S. company to surpass \$1 trillion in market value. PHOTO: JUSTIN SULLIVAN/GETTY IMAGES

By *Tripp Mickle*

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Apple Inc. [AAPL 1.54%▲](#) reported its fourth consecutive quarter of record revenue and profit, as the combination of higher iPhone prices and strong app-store sales propelled the technology giant to its best year ever.

But the world's most valuable company offered guidance for the current period that disappointed many investors, and said it would stop reporting unit sales for its products—a measure closely watched by investors—raising questions about the prospects for strong sales of new gadgets it has unveiled in the past two months.

Shares of Apple fell 6.5% to \$207.76 in after-hours trading, making it the latest tech company to be punished after announcing results during a period of stock-market turmoil. Tech shares have tanked over the past several weeks amid investor unease with sky-high valuations, as well as slowing revenue growth and rising costs at some companies. Controversies over the power and responsibility of some internet platforms like Facebook Inc. and Google have fueled the concerns.

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Apple said it expects revenue in the December quarter—traditionally Apple's most important—of between \$89 billion and \$93 billion. Analysts' consensus estimate is for revenue at the high end of that range, \$92.94 billion according to FactSet, on hopes for strong demand for the \$749 iPhone XR,

\$999 iPhone XS and \$1,099 iPhone XS Max that Apple introduced in September. Revenue in the December quarter last year totaled \$88.3 billion.

Chief Financial Officer Luca Maestri said in an interview that the forecast partly reflects weakness in developing-market economies such as Turkey and Brazil. It also is driven by the fact that Apple introduced its priciest iPhones in September this year, whereas a year ago it began selling the pricier iPhone X in November, fueling growth in that period. Weaker foreign currencies against the dollar are another factor, he said.

Still Mr. Maestri said even the low end of guidance would provide another quarter of record revenue. “We are starting the new year with a lot of confidence and the strongest product lineup we’ve ever had,” he said, pointing to the new iPads, MacBooks and iPhones unveiled over the past two months.

The projections overshadowed otherwise strong results. Revenue for the three months ended Sept. 29, the final fiscal quarter, rose nearly 20% to \$62.9 billion from the same period a year earlier, Apple said Thursday. Profit soared 32% to \$14.13 billion, helped in part by lower taxes resulting from the U.S. tax overhaul. Both numbers beat analysts’ forecasts.

Those results offered affirmation for two main pillars of Apple’s current strategy: promoting its software-and-services business and raising prices on its flagship iPhones to compensate for slower growth in unit sales. Both aim to capitalize on the loyalty of customers who use iPhones for everything from communication and shopping to watching video and reading the news.

Apple last year raised the starting price for its flagship iPhone by about 50% to nearly \$1,000. In the latest quarter, revenue from the device, which accounts for most of Apple’s sales and profit, rose 29% to \$37.19 billion, despite flat unit sales.

The services business—including app-store sales, Apple Pay use and music-streaming subscriptions—reported record revenue of \$9.98 billion, up 17% from a year ago. That is slower than recent quarters but keeps Apple on track to fulfill Chief Executive Tim Cook’s promise that services will be a \$50 billion business by 2020.

For the full fiscal year, although the number of iPhones sold world-wide edged up less than 1% to nearly 218 million, higher prices helped Apple deliver record revenue of \$265.6 billion, up 14% from its previous high in fiscal 2015.

In the face of stagnating growth in unit sales, Apple said it would stop reporting such numbers for iPhones, iPads and Macs, starting with the December quarter. Mr. Maestri said the number of units the company sells isn’t representative of its underlying business. He said the company will also rename its “other products” category to “wearables, homes and accessories,” a move that is more emblematic of the devices driving that business.

“Our install base is growing at double digits and that’s probably a much more significant metric for us from an ecosystem point of view and customer loyalty,” Mr. Cook said during a call with analysts. “This is a little bit like if you go to the market and push the cart up to the cashier and she says: How many units do you have in there? It doesn’t matter a lot how many units there are in there in terms of the overall value of what’s in the cart.”

Apple’s shares, already trading down, fell further during the call. Analysts and investors have long followed unit sales numbers closely to help gauge the popularity of Apple’s products.

Apple’s forecast for the current quarter and the accounting changes show “there’s enough uncertainty out there to be conservative, which is what we’ve heard from other technology companies,” said Tom Plumb, chief executive officer of SVA Plumb Wealth Management, which has \$2.8 billion under management and counts Apple among its top holdings. “Every one of them is concerned about the overall environment, tariffs, trade and the economy, and they’re saying: Don’t get your expectations up too high.”

Apple, which in August became the first U.S. company to surpass \$1 trillion in market value, had been faring far better than many other tech titans in the recent swoon. As of Thursday’s close, before the earnings report, its stock had fallen less than 5% from its all-time high on Oct. 3, shedding less than \$48 billion of its valuation. That compares with declines off their peak

values of about \$180 billion for Amazon.com Inc., \$139 billion for Google-parent Alphabet Inc., and \$192 billion for Facebook.

In the September quarter, Apple's China business, which has been accelerating in recent quarters, continued to improve even as the Chinese economy weakens. Sales in Greater China, which includes Hong Kong and Taiwan, rose 16% to \$11.41 billion in the period.

Apple avoided having its devices swept up in the Trump administration's most recent round of tariffs of 10% on \$200 billion of Chinese imports. Still, those tariffs are set to rise to 25% early next year, and President Donald Trump has said tariffs eventually will be expanded to all Chinese imports, which would include iPhones, smartwatches and other gadgets. Such a move would increase the danger that the Chinese retaliate by punishing Apple's business in China, trade experts say.

Mr. Maestri said Apple is watching trade issues with China closely, but said "the interest in our new products has been very good."

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