

CONSUMER ELECTRONICS

Apple services up 19pc not enough to offset 8pc iPhone drop

July 28, 2016



Apple's new iPhone SE

By CHANTAL TODE

Slightly edging out forecasts, Apple's revenue from services grew 19 percent from a year ago, but it was not enough to offset a slowdown in iPhone and iPad sales, which dragged down overall revenue for the second quarter in a row.

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With App Store revenue reaching an all-time high mark, up 37 percent, the results for the company's fiscal quarter results show how its focus on services is a bright spot. This coupled with a better-than-expected drop in iPhone sales upped the value of Apple's stock in after-hours trading.

"In the last 12 months, our services revenue is up almost \$4 billion year-on-year to \$23.1 billion and we expect it to be the size of a Fortune 100 company next year," said Tim Cook, CEO of [Apple](#), in a conference with analysts to discuss the results.

"Most of our terrific services performance during the quarter was fueled by our active install base of devices, with installed-based related purchase up \$10.3 billion, accelerating to 29 percent growth year on year," he said.

40M iPhones sold

Apple said it sold 40.4 million iPhones during the third quarter, compared with 51 million units in the second quarter and 47.5 million in the year-ago quarter.

Unit sales for the iPad also continued to drop, totaling 9.9 billion. Services revenue reached \$6 billion for the quarter.

Overall, Apple reported that, for the fiscal third quarter ended June 25, 2016, revenue totaled \$42.4 billion, down from \$49.6 billion during the same quarter a year ago.

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In the previous quarter, revenue totaled \$50.6 billion.

The company's quarterly net income totaled \$7.8 billion, or \$1.42 per diluted share. A year ago, net income totaled \$10.7 billion, or \$1.85 per diluted share.

"Apple had another down quarter, year over year, but the results were within expectations," said Wayne Lam, an

analyst at [IHS Markit Technology](#). "From my area of focus, we're seeing the impacts of the iPhone SE launch which pushed down overall iPhone ASP the strength of which suggests that the SE is doing as well as expected it to do, which is geared at the switcher market globally and also to induce upgrades here in the US market.

"The global slow down in smartphone demand will continue to weigh on Apple as iPhones have traditionally been a profit engine for the company, having made upwards of 69 percent of revenue at one point," he said. "This quarter, iPhone revenue reflected only about 57 percent which suggest that other growth is coming from services."

iPhone SE

During the third quarter, Apple launched the iPhone SE, its first new small-screen smartphone in a couple of years, a move designed to encourage users who have been holding onto older phones and who do not want a large-screen phone, to upgrade. The company reported strong demand, with demand outstripping supply for much of the quarter.

As smartphone sales slow, Apple continues to focus on building the services side of its business during the third quarter, including shortening app approvals, revising revenue sharing terms and revamping its music-streaming app.

The services push helps Apple continue to generate revenue after its hardware has been sold and reflects the growing amount of time that consumers are spending with their devices.

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Mobile payments

Mobile payments are also an important part of the services push, helping Apple engage with consumers and marketers going forward.

During the company's developer conference in June, Apple revealed that Apple Pay, will be making its debut on the Web this fall with the help of several commerce platforms, including Shopify and Moovweb, potentially bringing Apple Pay to hundreds of thousands of merchants' Web sites in a move that could increase online sales, due to the technology's enhanced security ([see story](#)).

Apple also opened both Siri and iMessage to developers, which was announced at its developer conference, taking advantage of the significant interest in voice-based services and next-generation messaging to attract marketers and breathe new life into the iPhone ([see story](#)).

Despite the growth in services, Apple will need to continue to build its installed base of iPhone users and is betting on the SE to help.

According to Apple, it added millions of first-time smartphone buyers in the third quarter and switchers accounted for the highest percentage of quarterly iPhone sales ever, thanks to the success of the SE.

"We have a very successful global launch of iPhone SE and demand outstripped supply throughout the quarter," Mr. Cook said. "We brought on additional capacity and we were able to achieve supply balance as we entered the September quarter.

"At its launch, we said the addition of the SE to the iPhone lineup placed us in a better position to meet the needs of customers who love a four-inch phone and to attract even more customers into our ecosystem," he said.

"In both cases, that strategy is working. Our initial sales data tells us that the SE is popular in both developed and emerging markets and the percentage of iPhone SE sales that are going to customers who are new to iPhone are greater than we have seen in the first weeks of availability for other iPhones launched in the last several years."