

Apple 3Q15 results

Apple yesterday released 3Q15 results, with the company posting a huge quarterly revenue number of \$49.6bn (+33% YoY, and vs 3Q14 revenue of \$37.4bn), while net profit came in at \$10.7bn, or \$1.85/diluted share (3Q14: net profit of \$7.7bn, or \$1.28/diluted share). Apple also posted another beat on the margin side which stood at 39.7% (up 30 bpts YoY), above the 38.5%-39.5% the company had guided (for 4Q this margin guidance is unchanged). International markets accounted for 64% of revenue vs 69% in 2Q15, with sales in China more than doubling. Notably, this was also the first period that includes initial Apple Watch sales (the watch launched on 24 April). Although the individual numbers for the device weren't disclosed, Apple's "Other products" category (under which the watch falls) saw a 49% YoY growth in revenue. We highlight that, according to *Cult of Mac*, 3Q is traditionally Apple's slowest quarter of the year. Apple's cash hoard now sits at c. \$203bn (of which 89% is held offshore).

Overall, the results fell just short of Wall Street's (somewhat inflated?) expectations for 3Q15 revenue of \$50.6bn (although it beat Apple's own projection for the quarter which stood at between \$46bn and \$48bn). This, together with the company's 4Q forecast-range dropping somewhat, saw the share price come under pressure following the results (the share price is down c. 5% in pre-market trade). Apple guided 4Q15 revenue of \$49-\$51bn (slightly below the *Thomson Reuters* consensus forecast of \$51.1bn) and a gross margin of between 38.5% and 39.5%.

On the conference call, CEO Tim Cook said that Apple would have had a higher gross margin if it weren't for the currency impact of the strong dollar, adding that it was nevertheless remarkable to see how "resilient iPhone sales have been because we have increased sales and we've increased market share in all our geographies around the world without exception".

Apple declared its regular quarterly dividend of \$0.52/share, payable on 13 August, to shareholders on record as of 10 August.

Despite the wealth of good news, the share came under some pressure following the results and we note that the stock will likely suffer in the short-term in light of weaker-than-expected iPhone sales and a (slight) miss on consen-

sus numbers. However, we believe this will only be temporary. Apple's share price has historically retreated following the release of results and this time the perceived "miss" on iPhone sales (47.5mn), which nevertheless exceeded Apple's own guidance but was slightly below analyst consensus estimates of 49mn, will likely add to the (short-term) pressure.

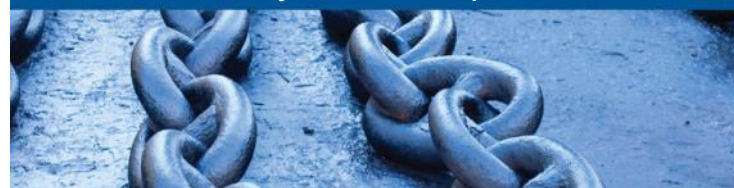
We remain positive on Apple; it is a quality share and the company's iPhone sales continue to remain robust and to even grow. This is likely to be the case for the foreseeable future (the potential in India for the company should not be underestimated). Added to this, China remains a huge opportunity for Apple with management indicating that, despite the recent turbulence of its stock market, this is expected to remain so for sometime to come as not even a slowing economy seems to be stifling demand there for the iPhone (see *comment under China below*).

Apple's Mac PC sales also remain strong (Apple continues to post strong YoY growth in Mac sales despite the premium paid for these products). Although the iPhone still accounts for c. 63% of its revenue Apple has started laying the groundwork to diversify by launching new products and services (Apple Watch, Apple Music and Apple Pay), while it is also moving into the Internet of Things [IoT] as well as automobiles (CarPlay). */continued...*



Global Ideas is a newsletter published three times a week (Monday, Wednesday and Friday) and available only to clients of Investor Campus and Anchor Capital. The key objective of this newsletter is to provide ideas for investment in the global investment universe.

We scan the globe looking for good opportunities. We provide our model portfolios, as well as news and views on our watchlist, which is continually reviewed and updated.

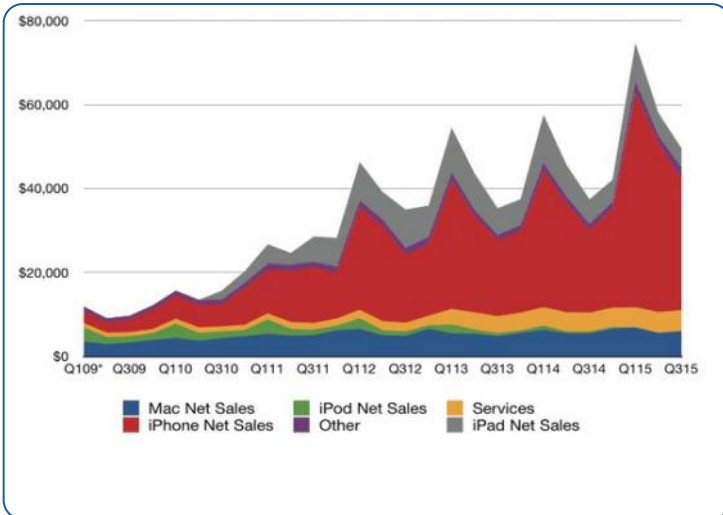


Contacts

Anchor Capital reception	011 591 0677	Trading Desk	012 665 3461
Investment/ Sales	mnyoung@anchorcapital.co.za	General Enquiries	info@anchorcapital.co.za
Brokerage/ Trading	trading@anchorcapital.co.za	Newsletter Enquiries	newsletters@anchorcapital.co.za

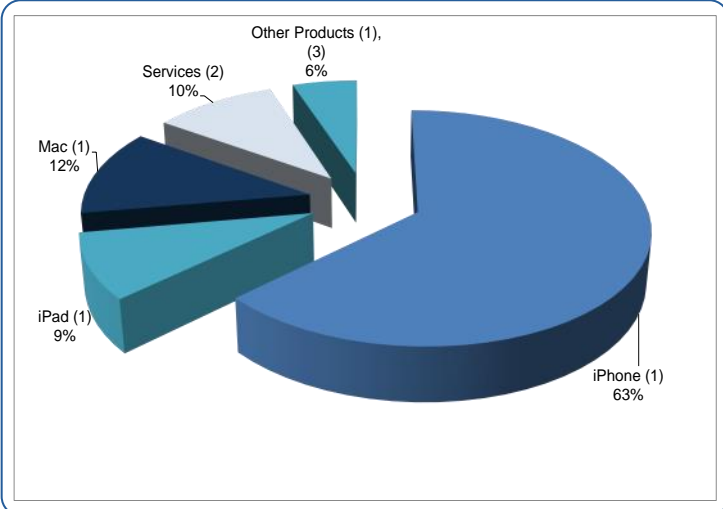
Apple continued... So until there are concrete indications that the company's robust growth will slow, we view Apple as a Buy. The bottom line is that the bar has been set extremely high for the company and yet it is still growing at rates which most other businesses can only dream of.

Apple revenue by quarter, \$mn:



Source: MacRumors.com

Apple revenue contribution by product, 3Q15:



Source: Company data, Anchor Capital

Apple products revenue, \$mn:

	3Q15	3Q14	YoY % Change
iPhone (1)	31 368	19 751	58.8
iPad (1)	4 538	5 889	-22.9
Mac (1)	6 030	5 540	8.8
Services (2)	5 028	4 485	12.1
Other Products (1), (3)	2 641	1 767	49.5
	49 605	37 432	32.5

Source: Company data, Anchor Capital

(1) Includes deferrals and amortisation of related non-software services and software upgrade rights.

(2) Includes revenue from the iTunes, AppleCare, Apple Pay, licensing and other services.

(3) Includes sales of Apple TV, Apple Watch, Beats Electronics, iPod and Apple-branded and third-party accessories.

By segment the company reported the following numbers:

iPhone (47.5mn units sold): iPhone revenue accounted for 63% of the Group's total revenue and sales increased 59% YoY to \$31.4bn, while the company also recorded a 35% YoY increase in units sold. Although iPhone revenue was below that of the previous quarter (\$40.3bn), Cook and CFO Luca Maestri emphasised that part of the drop was due to rising foreign prices on the back of a strengthening US dollar "rather than declining interest". In the conference call, Maestri also noted that this 35% YoY growth is almost 3x that of the market. On a regional level, iPhone sales grew 4x the market in Europe, 5x the market in Japan, doubled in Korea vs the market (that was shrinking), while in India it grew at 93% YoY. Maestri added that Apple believes the iPhone has "a lot of legs left to it" adding "we're in the early innings, not the late innings".

iPad (c. 11mn units sold): Not unexpectedly (as this has been the trend for a number of quarters), iPad revenue dropped 23% YoY to \$4.5bn, while the number of units sold declined by 18% YoY.

Mac (4.8mn units sold) : Mac revenue rose 9% YoY to \$6bn, while the units sold also increased 9% YoY. Growth in Mac sales may be due in part to the new 12-inch Retina MacBook and the refreshed 15-inch MacBook Pro (this was its first full quarter of sales).

Services (this includes iTunes, App Store, AppleCare, Apple Pay, etc.): Revenue here rose 12% YoY to \$5bn.

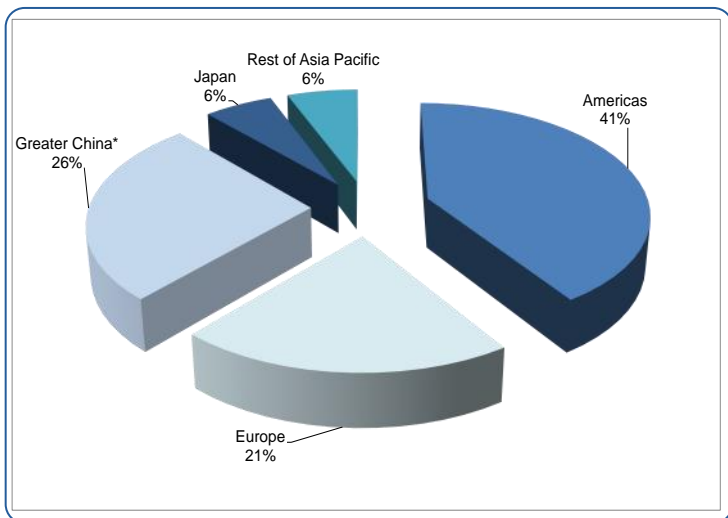
Other products (Apple Watch, iPod, Beats, accessories, etc.): While Apple isn't separating its Apple Watch or Beats numbers, the other products category, which now includes those items (as well as iPods and Apple TV) reported \$2.6bn in revenue - up 49% YoY from \$1.8bn.

The company did say that Apple Watch exceeded its "internal expectations" and that the "sell through was higher than comparable launch periods of the original iPhone and iPad". Maestri added that overall growth for Apple was driven "...by tremendous growth in iPhone and Apple Watch."

Demand for the Apple Watch immediately exceeded supply on its launch, resulting in a delayed availability of the watch in Apple's own retail stores (until mid-June). However, since then significant progress has been made with a ramp-up in production and sales of the watch expanded into 6 additional countries in late June. The Apple Watch is currently availability in 19 countries, with three more coming at the end of July.

On the conference call, Cook indicated that customer satisfaction with the watch was extremely high and "the possibilities for Apple Watch are enormous", adding that doctors and researchers at leading hospitals in the US and Europe are putting Apple Watch to work improving patients' lives and with the rollout of Watch OS 2, developers can now build "richer and more powerful native apps".

Apple 3Q15 revenue contribution by operating segment:



Source: Company data, Anchor Capital

* Greater China = China plus Hong Kong and Taiwan

some other countries do (in order to get great video performance), there is an incredible “smartphone future there”. He added that he couldn’t overstate “the rise of the middle class there is continuing and it’s transforming China”.

Some interesting facts this quarter:

- It was highlighted on the conference call that Apple experienced the highest switcher rate from Android ever measured with iPhone having the highest customer satisfaction rate of any smartphone brand by a wide margin as well.
- Among iPhone owners planning to purchase a new phone, 86% plan to purchase a new iPhone, while it stands at only 50% for the next highest brand measured.
- Apple generated \$5bn in services revenue - a new all-time record. Within services, App Store also produced its best quarter ever with revenue growing 24% YoY.

Marco de Matos

Apple revenue by region (operating segment), \$mn

	3Q15	3Q14	YoY % Change
Americas	20 209	17 574	15
Europe	10 342	8 659	19
Greater China*	13 230	6 230	112
Japan	2 872	2 627	9
Rest of Asia Pacific	2 952	2 342	26
Total	49 605	37 432	33

Source: Company data, Anchor Capital

* Greater China = China plus Hong Kong and Taiwan

In terms of performance by region (operating segment), the **Americas** revenue rose 15% YoY to \$20.2bn, while **Europe** was up 19% YoY to \$10.3bn. Sales in **Greater China** (which includes *China plus Hong Kong and Taiwan*) more than doubled rocketing 112% YoY to \$13.2bn. At the same time iPhone unit growth of 87% YoY was recorded in that region. According to Cook, this was particularly impressive given the *IDC*’s estimate of only 5% growth for the greater China smartphone market. **Japan** increased by 9% YoY to \$2.9bn and the rest of **Asia-Pacific** rose 26% YoY to \$3bn.

Although China macroeconomic concerns will be on investors’ minds, Cook indicated that Apple remains “extremely bullish on China” and that nothing has changed re Apple’s fundamental view that the country will remain its largest market in the future. This was despite the recent volatility in China’s equity market which they saw as creating “... speed bumps in the near term”.

Apple said it will continue expanding stores and indirect channels in China and noted that with LTE penetration at only c. 12% and the country not possessing the level of fibre



The business of money: Global asset management and stockbroking



The business of knowledge: Financial education, information and valuation services

Disclaimer

This report and its contents are confidential, privileged and only for the information of the intended recipient. Anchor Capital (Pty) Ltd and Ripple Effect 4 (Pty) Ltd make no representations or warranties in respect of this report or its content and will not be liable for any loss or damage of any nature arising from this report, the content thereof, your reliance thereon its unauthorised use or any electronic viruses associated therewith. This report is proprietary to Anchor Capital (Pty) Ltd and Ripple Effect 4 (Pty) and you may not copy or distribute the report without the prior written consent of the authors.