



APERATURE

INSIGHTFUL AND RELEVANT RESEARCH UPDATES

Apple Inc. FY 2025 Results

Share Price	US\$271.33
Date	03 November 2024

RESULTS SUMMARY

With high expectations ahead of the iPhone 17 launch, Apple delivered solid full-year 2025 results. Early demand for the iPhone 17 has been strong, though ongoing supply constraints, particularly on certain models, limited sales and weighed on revenue in China. Management expects supply to improve and sees a stronger December quarter.

Group revenue rose 6.4% to US\$416.2bn for the year, with Q4 revenue up 8% year-on-year to a record US\$102.5bn (ahead of expectations of US\$102.3bn). Gross margin for Q4 was 47.2%, above guidance and 70bps higher than the prior quarter despite a US\$1.1bn tariff headwind. Operating income grew 8% to US\$133.1bn, while diluted EPS increased to US\$7.46 (from US\$6.08). Management highlighted double-digit adjusted EPS growth when excluding last year's EU tax charge.

Greater China was the only region to decline in Q4, with revenue down 3.6% y-o-y to US\$14.5bn due to iPhone shortages. However, management pointed to strong store traffic and robust demand for the iPhone 17, expecting a return to growth in Q1. The Americas (Apple's largest region) delivered US\$44.2bn in Q4 (+6.1% YoY), while Europe, Japan and Rest of Asia Pacific all achieved record Q3 revenue.

OUR LONG-TERM INVESTMENT VIEW

- Apple has a dominant market share in the premium smartphone market due to the widely regarded quality of the iPhone. Over time, the group has successfully extended this superior design and manufacturing excellence across multiple devices, enabling the group to price its products at a premium compared to competitors. We believe this enduring advantage differentiates Apple from its competitors and, in some respects, positions the company as a luxury brand.
- Apple's brand loyalty has been further strengthened by the group's own operating system and app store, which are used across its devices. This has created a walled garden for Apple in the attractive software and services sub-segments of technology. Apple's app store enjoys a duopoly in its market. The structure of this market allows Apple to generate revenue from a wide range of app developers and at a high margin. We view this as a key driver in Apple's continued transition towards offering more services, a segment we expect to drive revenue growth and support margins.
- Thanks to the group's dominant market share, strong margins, and the recurring nature of some of its revenue streams, Apple is highly cash generative. Over time, the group has built a fortress-like balance sheet, which holds excess cash. Historic capital allocation has been impressive, and we believe this will continue to act as an underpin to Apple's valuation.

UNPACKING FY 2025 RESULTS

High-level numbers

- **Group revenue** rose 6.4% over the period to US\$416.2bn. During the September quarter, revenue grew 8%, marking a new record for Apple.
- **Gross margins** increased by 0.7 percentage points to 46.9% (vs. 46.2% in the prior year). This was driven by a favourable mix, with Services' gross margin at 75.3% and Products' gross margin at 36.2% in Q4.
- **Wearables, Home & Accessories revenue** declined 3.6% to US\$35.7bn, with Q4 revenue flat y-o-y. The Apple Watch and AirPods both reached new all-time highs in installed base, and over half of Apple Watch buyers in the quarter were new to the product.
- **Services (26% of sales)** were again the standout performer, with revenue up 13.5% to a record US\$109.2bn. Apple's paid subscriptions surpassed

Operating margins increased by 0.5 percentage points to 32% during the year, despite a double-digit increase in research and development expenditure. Operating profit was US\$133.1bn vs US\$123.2bn in the prior year.

- **Diluted earnings per share came in at US\$7.46**, higher than the prior year (+10.1% on an adjusted basis, excluding the preceding year's one-off EU tax charge).
- The group ended the year with US\$132bn in cash and marketable securities and US\$99bn in debt. As a result, the **group's balance sheet** remains in a net cash position of US\$33bn.

Key segment performance

- **Products (74% of revenue) sales rose 4.1% over the period to US\$307bn.** iPhone sales, which make up nearly 68% of product sales, increased 4.2% y-o-y to US\$209.6bn, with Q4 iPhone revenue reaching a record US\$49bn (+6% y-o-y) despite ongoing supply constraints. Management highlighted strong demand for the iPhone 17 lineup, with record upgrades and continued leadership in key markets.
- **Apple's installed base** of all products, including the iPhone, reached an all-time high, with the iPhone remaining the top-selling device in major regions. Management noted robust momentum in emerging markets, as well as a record number of new users for Apple Watch and Mac.
- **Mac revenue** rose 12.4% to US\$33.7bn, driven by the strength of the MacBook Air and robust double-digit growth in emerging markets. Nearly half of Mac buyers were new to the product.
- **iPad sales increased 5% to US\$28.0bn**, with Q4 revenue flat y-o-y. Management noted a tough comparison due to last year's product launches, but highlighted a record installed base and a high proportion of new users.

one billion, more than double the number from four years ago, driven by broad-based growth across Apple TV, Music, payments, Arcade, and new features for iCloud. Management highlighted all-time revenue records in Services across every geographic segment, with double-digit growth in most categories. Services gross margin remained strong at 75.3% in Q4. **We continue to see Services as a key driver of Apple's future growth as the company focuses on actively monetising its expanding subscriber base and deepening customer engagement.**

Looking ahead

Management provided an upbeat outlook for the December quarter, guiding to 10% – 12% revenue growth, which would mark Apple's strongest quarter on record. iPhone revenue is expected to grow at a double-digit rate, also reaching a new high.

Gross margins are forecast between 47% and 48% for the quarter, slightly above current levels, despite an estimated US\$1.4bn tariff impact. Operating expenses are expected to rise to US\$18.1bn – 18.5bn as Apple continues to invest in AI and product development.

While management did not give unit guidance for the iPhone, they expressed confidence in ongoing demand for the iPhone 17 range as noted strong global adoption of Apple Intelligence features. Over the medium term, Apple is expected to deliver low double-digit earnings growth, driven by strength across Products and Services. Our fair value estimate remains broadly in line with the current share price.

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