

Apple's iPhone joyride ends

SAN FRANCISCO - Apple on Tuesday forecast a sales decline for the first time in more than a decade, adding to evidence that the market for smartphones is becoming saturated and threatening the company's unprecedented run of success.

Revenue in the first three months of the year will be \$50bn to \$53bn, Apple said Tuesday, the first quarterly drop since 2003 and below analysts' estimates for \$55.5bn.

That follows a holiday quarter in which overall sales and iPhone shipments fell short of projections, reinforcing concerns that Apple is reaching the limits of iPhone growth and that a push in China will not make up for a slowdown in the rest of the world - a sentiment that's fuelled a stock slide of 20% in the past six months.

While Apple remains immensely profitable - generating \$18.4bn in net income on sales of \$75.9bn in the December quarter - it is no longer benefiting as much from the rapid adoption of smartphones around the world.

Mobile phone rival Samsung Electronics also recently reported weaker-than-expected results.



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Apple CEO Tim Cook has expanded in China and released new services and products such as Apple Watch to help broaden the business, but the company's dependence on the iPhone leaves it vulnerable to any deceleration in demand.

"They have other products, and have the potential to launch other products, but the hole left from an iPhone slowdown is too big to fill," said Abhey Lamba, an analyst at Mizuho Securities USA. "Its future is whatever is happening in the smartphone space."

The company also said the strength of the US dollar against foreign currencies was trimming revenue. What would have been \$100 in sales in the fourth quarter of 2014 is today worth only \$85 because of the shift in currency-exchange rates, Apple said in a statement.

For the first quarter, which ended in December, the Cupertino, California-based company reported per-share net income of \$3.28. Analysts on average had projected earnings of \$3.23 a share on sales of \$76.5 billion, according to data compiled by Bloomberg.

In the recent quarter, typically the strongest of the year, iPhone sales rose to 74.8-million units, compared with the average 75-million predicted by analysts. iPad purchases continued to decline, with Apple selling 16.1-million tablets, compared with a projection of 17.3-million. Mac sales fell to 5.31-million, compared with the 5.8-million estimated.

Luca Maestri, Apple's chief financial officer, said the company is feeling the effects of a "very different" economic environment around the world. Apple is beginning to see "softness" in China, particularly in Hong Kong, he said.

"You need to take into account the business opportunities that we have, but also the realities of an economic environment that is not ideal right now," he said.

Canada, Brazil and Russia also are showing signs of slowing down. "There are a lot of economies around the world that are in recession," he said.

Apple faced tough comparisons to the holiday period last year, when it posted record results following the much-anticipated

release of the bigger-screen iPhone 6 and 6 Plus. Apple got a boost last quarter from an earlier release in China of the latest iPhone models - the 6S and 6S Plus - but the trade-off is that sales in the current period may take a hit. Overall sales in greater China rose 14% to \$18.4 billion last quarter.

Apple largely created the global smartphone market with the 2007 debut of the iPhone, and as customers have adopted the technology around the world no company has profited more.

But the market is slowing down, making growth harder to find. Research firm IDC forecast smartphone sales last year would rise by less than 10% for the first time ever. In addition to Apple, companies ranging from Samsung to China's Xiaomi have felt the impact.

Apple has been adding tools such as the Apple Music streaming service and Apple Pay digital payments to augment its business, but the challenge is generating enough revenue from new products to move the needle for a company of Apple's size.

Mizuho's Lamba said that while Apple makes about \$300 for each iPhone sold, it takes about 60,000 transactions via Apple Pay to make \$100.

Apple did not disclose sales for Apple Watch, which is not yet a breakout hit with customers in the way that iPhone or iPad were.

Maestri said Apple's services business is growing rapidly and will help make up for slowdowns in other areas. He said investors did not yet appreciate that piece of the company's business. "It's a clear point that we're going to make to anybody who is willing to listen," he said. "The stock price doesn't reflect the true value of our company."

Maestri contested those who say Apple's business has peaked. "We see a number of opportunities to grow."

Source: Business Day

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