

Apple and the Case of the "Worst Ever" Q2

Written by Marco Attard
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The Q2 2016 Apple financial report features a first as run of 51 successive quarters of growth comes to an end-- the company admits a revenue drop of -13% Y-o-Y, the result of currency headwinds and declining iDevice sales.



Mind, the revenue total still makes an impressive sum. At \$126 billion, Apple revenues are still worth more than double than those of Samsung Mobile, Microsoft and Alphabet, the Google umbrella company.

Net income also shows a sharp decline of -22% Y-o-Y to \$10.5bn, a first in 2.5 years. Both Apple and Wall Street were expecting drops for the quarter, but not to such an extent. As for device numbers, iPhone sales total 51.1 million (with -18% Y-o-Y decline), iPads total 10.2m (-19% Y-o-Y) and Macs reach 4m units (-12% Y-o-Y).

One bright spot can be seen in "other products," the category covering the Watch and iPod, with revenues up by 30% Y-o-Y to \$2.2bn. Services revenues also show growth of 20% Y-o-Y to \$6bn.

"Our team executed extremely well in the face of strong macroeconomic headwinds," CEO Tim Cook says. "We are very happy with the continued strong growth in revenue from Services, thanks to the incredible strength of the Apple ecosystem and our growing base of over 1bn active devices."

The decline is also seen on a regional level-- EU Apple revenues are down by -5% Y-o-Y, while the US sees a -10% Y-o-Y. However the most critical decline for the company comes from Greater China (covering China, Taiwan and Hong Kong), as revenues from the most populous

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country in the world (and once great hope for a growth market) fell by -26% Y-o-Y.

In fact, the fear over China is so great that activist investor Carl Icahn sold his stake in Apple (one reportedly worth \$2bn) exactly because of the sales in the country having too much influence over company stock.

"You can't go into that business unless you're like Samsung which is really like a country backing it," Icahn tells CNBC. "A lot of people tried, a lot of people failed... In China, for instance, they will come in and make it very difficult for Apple to sell there."

As well as the issue of declining sales, China also poses issues when it comes to dealing with the "benevolent" dictatorship that's the Chinese government. April 2016 saw the shutting down of iTunes movies and the iBooks stores following the introduction of strict regulations covering online publishing by foreign firms.

So, is Apple on an inexorable downwards route, or are reports in its eventual death grossly exaggerated? After all, it is safe to say the global smartphone market is indeed saturated on both developed and developing front, and one wonders whether the company will manage to create another smash hit big enough to compensate for such declines. Then again, Apple has already been through tougher days in the past, so it is also possible it will manage to bounce back, stronger than ever.

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