

Apple Inc. (NASDAQ:[AAPL](#)) Q3 2023 Earnings Conference Call August 3, 2023 5:00 PM ET

Company Participants

Saori Casey - VP, Finance

Tim Cook - CEO

Luca Maestri - CFO

Conference Call Participants

Shannon Cross - Crédit Suisse

Wamsi Mohan - Bank of America Merrill Lynch

David Vogt - UBS

Sidney Ho - Deutsche Bank

Krish Sankar - TD Cowen

Amit Daryanani - Evercore ISI

Aaron Rakers - Wells Fargo Securities

Michael Ng - Goldman Sachs Group

Erik Woodring - Morgan Stanley

Harsh Kumar - Piper Sandler & Co.

Operator

Good day, and welcome to the Apple Q3 Fiscal Year 2023 Earnings Conference Call. Today's call is being recorded. At this time, for opening remarks and introductions, I would like to turn the call over to Saori Casey, Vice President of Finance. Please go ahead.

Saori Casey

Thank you. Good afternoon, and thank you for joining us. Speaking first today is Apple's CEO, Tim Cook; and he'll be followed by CFO, Luca Maestri. After that, we'll open the call to questions from analysts.

Please note that some of the information you'll hear during our discussion today will consist of forward-looking statements, including, without limitation, those regarding revenue, gross margin, operating expenses, other income and expense, taxes, capital allocation and future business outlook, including the potential impact of macroeconomic conditions on the company's business and the results of operations.

These statements involve risks and uncertainties that may cause actual results or trends to differ materially from our forecast. For more information, please refer to the risk factors discussed in Apple's most recently filed annual report on Form 10-K and the Form 8-K filed with the SEC today, along with the associated press release. Apple assumes no obligation to update any forward-looking statements, which speak only as of the date they are made.

I'd now like to turn the call over to Tim for introductory remarks.

Tim Cook

Thank you, Saori. Good afternoon, everyone, and thanks for joining us. Today, Apple is reporting revenue of \$81.8 billion for the June quarter, better than our expectations. We continued to see strong results in emerging markets, driven by robust sales of iPhone with June quarter total revenue records in India, Indonesia, Mexico, the Philippines, Poland, Saudi Arabia, Turkey and the UAE. We set June quarter records in a number of other countries as well, including France, the Netherlands and Austria. And we set an all-time revenue record in Services driven by more than \$1 billion paid subscriptions.

We continued to face an uneven macroeconomic environment, including nearly 4 percentage points of foreign exchange headwinds. On a constant currency basis, we grew compared to the prior year's quarter in aggregate and in the majority of markets we track. We continue to manage deliberately and innovate relentlessly, and we are driven by the sense of possibility those efforts inspire.

To that end, before I turn to the quarter in more detail, I want to take a moment to acknowledge the unprecedented innovations we were proud to announce at our Worldwide Developers Conference. In addition to extraordinary new Macs and incredible updates to our software platforms, we had the chance to introduce the world to spatial computing.

We were so pleased to share the revolutionary Apple Vision Pro with the world, a bold new product unlike anything else created before. Apple Vision Pro is a marvel of engineering, built on decades of innovation only possible at Apple. It is the most advanced personal electronic device ever created, and we've been thrilled by the reaction from press, analysts, developers and content creators who've had the chance to try it. We can't wait to get it into customers' hands early next year.

Now let me share more with you on our June quarter results beginning with iPhone. iPhone revenue came in at \$39.7 billion for the quarter, down 2% from the year ago quarter's record performance. On a constant currency basis, iPhone revenue grew, and we had a June quarter record for switchers, reflecting the popularity of the iPhone lineup. iPhone 14 customers continue to praise the exceptional battery life and essential health and safety features, while iPhone 14 Plus users are loving the new larger screen size. And with Dynamic Island, Always-On display and the most powerful camera system ever in an iPhone, the iPhone 14 Pro lineup is our best ever.

Turning to Mac. We recorded \$6.8 billion in revenue, down 7% year-over-year. We are proud to have completed the transition of our entire Mac lineup to run exclusively on Apple silicon. We are also excited to have introduced the new 15-inch MacBook Air during the quarter, the world's best 15-inch laptop and one of the best Macs we've ever made. And we launched 2 new powerhouses in computing, Mac Studio with M2 Max and M2 Ultra and Mac Pro with M2 Ultra, which are the most powerful Macs we've ever made.

iPad revenue was \$5.8 billion for the June quarter, down 20% year-over-year, in part due to a difficult compare because of the timing of the iPad Air launch last year. Customers are loving iPad's versatility and exceptional value. There was a great deal of excitement from creatives when we brought Final Cut Pro and Logic Pro to iPad this spring. And with the back-to-school season in full swing, iPad has the power to help students tackle the toughest assignments.

Across Wearables, Home and Accessories, revenue was \$8.3 billion, up 2% year-over-year and in line with our expectations. Packed with features to empower users to live a healthier life, Apple Watch and Apple Watch Ultra continue to help people take the next step on their wellness journey.

As I mentioned earlier, last quarter, we held our biggest and most exciting WWDC yet. We were thrilled to welcome developers from across the globe to Apple Park, both in person and virtually, and to share some stunning new announcements with the world.

In addition to Apple Vision Pro and the new Macs that we introduced, we had the chance to reveal some truly remarkable new innovations to our software platforms. From exciting new features like Live Voicemail and StandBy in iOS 17, to new tools for users to work, play and personalize their experience in macOS Sonoma and iPadOS 17, to a fresh design and new workout capabilities in watchOS 10, there's so much coming later this year to empower users to get more out of their devices, and we think they're going to instantly love these new features.

It was also an exciting quarter for Services where revenue reached \$21.2 billion and saw a sequential acceleration to an 8% year-over-year increase, better than we expected. We set an all-time revenue record for total services and in a number of categories, including video, AppleCare, cloud and payment services. Since we introduced Apple Pay almost a decade ago, customers have been loving how easy it is to make purchases online, in apps and in stores. We're also pleased to see Apple Card build on the success of Apple Pay. Designed with our users' financial health in mind, Apple Card has become one of the most successful credit card programs in the U.S. with award-winning customer satisfaction. And this spring, we introduced a new high-yield savings account for Apple Card customers, which has become incredibly popular, with customers already making more than \$10 billion in deposits.

Meanwhile, Apple TV+ continues to provide a spectacular showcase of imaginative storytelling. Recently, fans welcomed new series like Hijack and Silo as well as returning fan favorites like Foundation and The Afterparty. In the few years since its launch, Apple TV+ has earned more than 1,500 nominations and 370 wins. That includes the 54 Emmy Award nominations across 13 titles that Apple TV+ received last month.

It's also been an exciting time for sports on Apple TV+. Soccer legend Lionel Messi made his debut with Major League Soccer last month, and fans all over the world tuned in with MLS Season Pass. We are excited about our MLS partnership, and we're thrilled to see Messi suiting up with Inter Miami.

And just in time for summer concert season, Apple Music launched new discovery features celebrating live music, including venue guides in Apple Maps and set lists from tours of major artists. These new features and others join a lineup of updates coming later this year to make Services more powerful, more useful and more fun than ever.

Everything we do is in service of our customers, and retail is where we bring the best of Apple. During the quarter, we opened the Apple Store online in Vietnam, and we're excited to connect with more customers there. We also redesigned our first-ever Apple Store located in Tysons Corner, Northern Virginia, with inclusive, innovative and

sustainable design enhancements. We opened a beautiful new store beneath our new London headquarters in the historic Battersea Power Station. And the performance of the stores we opened in India this spring exceeded our initial expectations.

With every product we create, every feature we develop and every interaction we share with our customers, we lead with the values we stand for. We believe in creating technology that serves all of humanity, which is why accessibility has always been a core value that we embed in everything we do.

On Global Accessibility Awareness Day, we unveiled some extraordinary new tools for cognitive, vision, hearing and mobile accessibility that will be available later this year, including Assistive Access, which distills apps to their most essential features, and Personal Voice, which allows users to create a synthesized voice that sounds just like them.

Building technology and service of our customers also means protecting their privacy, which we believe is a fundamental human right. That's why we were pleased to announce major updates to Safari Private Browsing, Communication Safety and Lockdown Mode to further safeguard our users. And as part of our efforts to build a better world, we announced that we've more than doubled our initial commitment to our Racial Equity and Justice Initiative to more than \$200 million. We will continue to do our part to support education, economic empowerment and criminal justice reform work. And while supporting efforts to advance equity and opportunity, we continue to build a culture of belonging at Apple and a workforce that reflects the communities we serve.

Through our environmental work, we're making strides in our commitment to leave the world better than we found it. Last month, Apple joined with global nonprofit Acumen in a new effort to improve livelihoods in India through clean energy innovation, and we are as committed as ever to our Apple 2030 goal to be carbon neutral across our entire supply chain and the life cycle of our products.

We've long held that education is the great equalizer. With that in mind, we're expanding Apple Learning Coach, a free professional learning program that teaches educators how to get more out of Apple technology in the classroom. Today, we welcome more than 1,900 educators across the U.S. to the program. By the end of the year, we'll offer Apple Learning Coach in 12 more countries.

As we're connecting with teachers, we're also celebrating the graduations of students at our app developer academies around the world. From Detroit, to Naples, to Riyadh and

more, we're excited to watch these talented developers embark on careers in coding and find ways to make a positive difference in their communities.

Apple remains a champion of innovation, a company fueled by boundless creativity, driven by a deep sense of mission and guided by the unshakable belief that a great idea can change the world. Looking ahead, we'll continue to manage for the long term, always pushing the limits of what's possible and always putting the customer at the center of everything we do.

With that, I'll turn it over to Luca.

Luca Maestri

Thank you, Tim, and good afternoon, everyone. Revenue for the June quarter was \$81.8 billion, down 1% from last year and better than our expectations despite nearly 4 percentage points of negative impact from foreign exchange. On a constant currency basis, our revenue grew year-over-year in total and in the majority of the markets we track. We set June quarter records in both Europe and Greater China and continue to see strong performance across our emerging markets driven by iPhone.

Products revenue was \$60.6 billion, down 4% from last year, as we faced FX headwinds and an uneven macroeconomic environment. However, our installed base reached an all-time high across all geographic segments, driven by a June quarter record for iPhone switchers and high new-to rates in Mac, iPad and Watch, coupled with very high levels of customer satisfaction and loyalty.

Our Services revenue set an all-time record of \$21.2 billion, up 8% year-over-year and grew double digits in constant currency. Our performance was strong around the world as we reach all-time Services revenue records in Americas and Europe and June quarter records in Greater China and rest of Asia Pacific.

Company gross margin was 44.5%, a record level for the June quarter and up 20 basis points sequentially, driven by cost savings and favorable mix shift towards Services, partially offset by a seasonal loss of leverage. Products gross margin was 35.4%, down 130 basis points from last quarter due to seasonal loss of leverage and mix, partially offset by favorable costs. Services gross margin was 70.5%, decreasing 50 basis points sequentially.

Operating expenses of \$13.4 billion were below the low end of the guidance range we provided at the beginning of the quarter and decelerated from the March quarter. We continue to take a deliberate approach in managing our spend with strong focus on

innovation and new product development. The results of these actions delivered net income of \$19.9 billion, diluted earnings per share of \$1.26, up 5% versus last year, and very strong operating cash flow of \$26.4 billion.

Let me now provide more detail for each of our revenue categories. iPhone revenue was \$39.7 billion, down 2% year-over-year but grew on a constant currency basis. We set revenue records in several markets around the world, including an all-time record in India and June quarter records in Latin America, the Middle East and Africa, Indonesia, the Philippines, Italy, the Netherlands and the U.K. Our iPhone active installed base grew to a new all-time high, thanks to a June quarter record in switchers. This is a testament to our extremely high levels of customer satisfaction, which 451 Research recently measured at 98% for the iPhone 14 family in the U.S.

Mac generated \$6.8 billion in revenue, down 7% year-over-year. We continue to invest in our Mac portfolio. And this past quarter, we were pleased to complete the transition to Apple silicon for the entire lineup. This transition has driven both strong upgrade activity and a high number of new customers. In fact, almost half of Mac buyers during the quarter were new to the product. We also saw reported customer satisfaction of 96% for Mac in the U.S.

iPad revenue was \$5.8 billion, down 20% year-over-year and in line with our expectations. These results were driven by a difficult compare against the full quarter impact of the iPad Air launch in the prior year. At the same time, we continue to attract a large number of new customers to the iPad installed base with over half of the customers who purchased iPads during the quarter being new to the product. And the latest reports from 451 Research indicate customer satisfaction of 96% in the U.S.

Wearables, Home and Accessories revenue was \$8.3 billion, up 2% year-over-year, with a June quarter record in Greater China and strong performance in several emerging markets. We continue to see Apple Watch expand its reach with about 2/3 of customers purchasing an Apple Watch during the quarter being new to the product. And this is combined with very high levels of customer satisfaction, which was recently reported at 98% in the United States.

Moving on to Services. We reached a new all-time revenue record of \$21.2 billion with year-over-year growth accelerating sequentially to 8% and up double digits in constant currency. In addition to the all-time records Tim mentioned earlier, we also set June quarter records for advertising, App Store and Music. We are very pleased with our performance in Services, which is a direct reflection of our ecosystem's strength.

First, our installed base of over 2 billion active devices continues to grow at a nice pace and establishes a solid foundation for the future expansion of our ecosystem. Second, we see increased customer engagement with our services. Both our transacting accounts and paid accounts grew double digits year-over-year, each reaching a new all-time high. Third, our paid subscriptions showed strong growth. This past quarter, we reached an important milestone and passed 1 billion paid subscriptions across the services on our platform, up 150 million during the last 12 months and nearly double the number of paid subscriptions we had only 3 years ago. And finally, we continue to improve the breadth and the quality of our current services. From 20 new games on Apple Arcade, to brand-new content on Apple TV+, to the launch of our high-yield savings account with Apple Card, our customers are loving these enhanced offerings.

Turning to the enterprise market. Our customers are leveraging Apple products every day to help improve productivity and attract talent. Blackstone, a global investment management firm, is expanding its Apple footprint from their corporate iPhone fleet to now offering the MacBook Air powered by M2 to all of their corporate employees and portfolio companies. Gilead, a leading biopharmaceutical company, has deployed thousands of iPads globally to their sales team. Over the last 6 months, they have also doubled their Mac user base by making MacBook Air available to more employees with a focus on user experience and strong security.

Let me now turn to our cash position and capital return program. We ended the quarter with over \$166 billion in cash and marketable securities. We repaid \$7.5 billion in maturing debt while issuing \$5.2 billion of new debt and increasing commercial paper by \$2 billion, leaving us with total debt of \$109 billion. As a result, net cash was \$57 billion at the end of the quarter.

During the quarter, we returned over \$24 billion to shareholders, including \$3.8 billion in dividends and equivalents and \$18 billion through open market repurchases of 103 million Apple shares. We continue to believe there is great value in our stock and maintain our target of reaching a net cash neutral position over time.

As we move ahead into the September quarter, I'd like to review our outlook, which includes the types of forward-looking information that Saori referred to at the beginning of the call. We expect our September quarter year-over-year revenue performance to be similar to the June quarter, assuming that the macroeconomic outlook doesn't worsen from what we are projecting today for the current quarter. Foreign exchange will continue to be a headwind, and we expect a negative year-over-year revenue impact of over 2 percentage points.

We expect iPhone and Services year-over-year performance to accelerate from the June quarter. Also, we expect the revenue for both Mac and iPad to decline by double digits year-over-year due to difficult compares, particularly on the Mac. For both products, we experienced supply disruptions from factory shutdowns in the June quarter a year ago and were able to fulfill significant pent-up demand in the year ago September quarter.

We expect gross margin to be between 44% and 45%. We expect OpEx to be between \$13.5 billion and \$13.7 billion. We expect OI&E to be around negative \$250 million, excluding any potential impact from the mark-to-market of minority investments, and our tax rate to be around 16%.

Finally, today, our Board of Directors has declared a cash dividend of \$0.24 per share of common stock payable on August 17, 2023, to shareholders of record as of August 14, 2023. With that, let's open the call to questions.

Saori Casey

Thank you, Luca. [Operator Instructions]. Operator, may we have the first question, please?

Question-and-Answer Session

Operator

[Operator Instructions]. We will go ahead and take our first question from Shannon Cross with Credit Suisse.

Shannon Cross

Tim, you mentioned -- and actually, Luca, too, you mentioned an uneven macro environment during the quarter several times on the call. I'm wondering if you can talk on a geographic basis about some of the trends you're seeing in iPhone. I'm specifically wondering how demand is trending within...

Luca Maestri

Sure. Shannon, I'll answer it. I didn't get the end of your question.

Operator

I think she has dropped.

Luca Maestri

Okay. Well, let me answer the question for the part that I could follow. So on a geographic basis, we've had great performance for iPhone in emerging markets. We set June quarter records in many of the emerging markets. We grew in total double digits. And the performance was strong across the board in emerging markets from China, where our performance improved from minus 3% to plus 8% in the June quarter and we grew double digits in constant currency, to many other areas around the world from India, where, again, we set a June quarter record with very strong performance there, Indonesia, Southeast Asia, in general, Latin America, Middle East. And so it's been really good there.

We -- also, as you can see from our geographic segments, we had a slight acceleration of performance in the Americas, primarily in the United States, but we declined there because the smartphone market has been in a decline for the last couple of quarters in the United States.

Shannon Cross

Sorry about that. I'm not sure why I cut off. In terms of gross margin, you were at the high end of the range [Technical Difficulty] and you guided to 45% at the high end, which is, I think, higher than I remember in 20 years of covering you. So how should we think about puts and takes of gross margin? And it seems like there's like a perfect storm of good things. So I just -- maybe if you can talk about how you're thinking about it more holistically.

Luca Maestri

I think you remember correctly, Shannon, because the 44.5% for the June quarter is an all-time record for us in June. We were up 20 basis points sequentially. It was driven by cost savings and a mix shift towards Services, which obviously helps company gross margins, partially offset by the seasonal loss of leverage. We have a commodity environment that is favorable to us. Our product mix is quite strong at this point. And so with the exception of foreign exchange, which continues to be a drag, and it was a significant drag on a year-over-year basis, yes, we are in a good position right now. We are in a good position for the June quarter. And as I mentioned, we expect similar level of gross margins for the same reasons, frankly, for the September quarter.

Operator

Our next question comes from Wamsi Mohan of Bank of America.

Wamsi Mohan

Luca, can you just give us a little more color around the guidance? Your overall revenue performance, you called out similar. Obviously, you absorbed a higher FX impact this quarter versus your guide. And you also noted Services acceleration. So just wondering, when you think about that comment on iPhone acceleration, is that on a reported basis? Is that constant currency basis? And is there something that's changing in terms of seasonality perhaps for you that is causing not as much step-up in product revenue as typical on a sequential basis? And I have a follow-up.

Luca Maestri

Yes. So all our comments are in reported currency, not in constant currency in relation to the outlook. And we said acceleration sequentially for iPhone and for Services. But we're also pointing out – and this is where I think, Wamsi, you're referring to some seasonality issues. We also said that for Mac and iPad, we expect to decline double digits. And the reason for that is that we have a very difficult compare versus last year. You remember that a year ago, in the June quarter, we had factory shutdowns for both Mac and iPad. And so we were able to fill the pent-up demand from those shutdowns during the September quarter. So an unusual level of activity that we had a year ago. And so now, obviously, the compare is difficult. So we expect both iPad and Mac to be down double digits, which offset the acceleration that I mentioned for iPhone and Services.

Wamsi Mohan

Okay. And Tim, I was wondering if you could update us on what percent of iPhones are sold on some type of installment basis now versus full upfront payment on a global basis. And maybe some thoughts on if you expect similar promotional activity from carriers, especially in the U.S., that seem to be grappling with a lot of cash flow issues this particular year.

Luca Maestri

Wamsi, I'll take it. We've done a really good job over the last few years with affordability programs around the world directly in our direct channel and with our partners around the world. The majority of iPhones, at this point, are sold using some kind of a program, trade-ins, installments, some kind of financing. And that percentage, which again, it's well over 50%, is very similar across developed and emerging markets. We want to do more of that because we think it really helps reduce the affordability threshold for our products. And we think it is also one of the reasons why our product mix has been very strong during the last couple of cycles. So we will continue to push on that front.

Operator

Our next question is from David Vogt with UBS.

David Vogt

I just wanted to follow up on 2 points that both you, Tim, and Luca made about growth and maybe commodities. So just to be clear, I know you're talking about an acceleration in iPhone, but the comp is about 2 points easier from FX. So I just want to understand, is that on a like-for-like basis, excluding the currency improvement of about 2 points from the June quarter to the September quarter?

And from a commodity perspective, I know last quarter, you talked about buying a lot of inventory at favorable prices, which was an incredibly smart strategy. Where do you sit today? And what's sort of the timing or the duration of that commodity sort of backlog that you have as we think about next quarter and the subsequent quarters? How far does that get you out into the future from this favorable cost dynamic?

Luca Maestri

Let me start again. I just want to be clear about the guidance, the outlook guidance that we provided. We're referring entirely to reported numbers. So they take into account the fact that we have a slight improvement in foreign exchange. So when I talk about similar performance, I refer to reported performance in the June quarter and then the reported performance in the September quarter. And again, we expect, on a reported basis, our iPhone performance to accelerate, our Services performance to accelerate, and iPad and Mac to decline double digits.

On the commodity front, as I mentioned, the environment is favorable. We always make sure that we take advantage of the opportunities that are available in the market, and we will continue to do that going forward.

David Vogt

Luca, any sense of how long that gives you a run rate today based on what you currently have? Can you give us a sense for at least the short-term tailwind?

Luca Maestri

I don't want to speculate past the September quarter because that's the horizon where we provide guidance. And I've said that the guidance for September is 44% to 45%, which you know is historically very high. And so obviously, that reflects a favorable environment for us.

Operator

Our next question is from Erik Woodring with Morgan Stanley.

Erik Woodring

I have 2 as well. Maybe if we just start kind of big picture, Tim or Luca. I was wondering if you could just kind of share some incremental color on how you think the consumer is behaving today versus 90 days ago and maybe how that differs by region. Meaning, are there any signs that consumer is incrementally more willing to spend on things like consumer electronics? Or is there still relative caution in the market? Are there any regions where you're seeing more strength in the consumer? And how sustainable do you think some of that strength or weakness could be based on some of the KPIs you track? And then I have a follow-up.

Tim Cook

Yes. David, it's Tim. If you sort of step around the world, we did exceptionally well in emerging markets last quarter and even better on a constant currency basis. And so emerging markets were -- was a strength. If you look at China, in China, we went from a negative 3% in Q2 to a plus 8% in Q3. And so in China, we had an acceleration.

If you look at the U.S., which is in the -- obviously in the Americas segment, it is the vast majority of what's in there, there was also a slight acceleration sequentially, although the Americas is still declining somewhat year-over-year, as you can see on the data sheet. The primary reason for that is that it's a challenging smartphone market in the U.S. currently.

And then in Europe, Europe saw a record quarter and -- for the June quarter, a record. And so some really good signs in most places in the world.

Erik Woodring

Awesome. And then maybe, Luca, a question for you. I think it's been about 3 quarters now where we've seen OpEx either grow below historical seasonality or come in below your expectations. I think this is the first time we've seen R&D grow less than 10% year-over-year since fiscal 2Q 2007. So can you maybe just talk about some of the cost actions you're taking? And as you look forward, what are the indicators that you're really evaluating that would give you greater confidence in perhaps returning back to a more seasonal cadence of OpEx spending? Or is this just a new normal that we should be expecting? That's it for me.

Luca Maestri

Obviously, we look at the environment, and we know that this has been an uncertain period for the last few quarters. And so we decided to be deliberate in what we do in terms of controlling our spend, and there's many areas across the company that we're working on and we've been quite effective at slowing down the spend. We slowed down also the hiring within the company in several areas. And we're very pleased with our ability to decelerate some of the expense growth taking into account the overall macro situation.

We will continue to manage deliberately. You can see that we continue to grow our R&D costs faster than the rest of the company. SG&A is actually growing at a much slower pace because obviously, our focus continues to be in innovation and product development, and we'll continue to do that.

Operator

Our next question is from Michael Ng with Goldman Sachs.

Michael Ng

I just have 2 questions as well. First, it was encouraging to see the Services outperformance in the quarter, up double digits on an FX-neutral basis, and more Services acceleration next quarter on a reported basis. I was just wondering if you could just talk a little bit more about key underlying drivers for the confidence in the Services acceleration next quarter, understanding that FX a little bit. But anything to call out as it relates to things in Apple Search Ads that's helping. You're obviously making a lot of investments in Apple TV+ between MLS and the Canal+ deal. So any thoughts there would be great.

Luca Maestri

Yes, Michael, you're correct. I mean clearly, we've seen an improvement in the June quarter, and we expect further improvement in the September quarter. In June, the performance was across the board. Tim and I mentioned we set records really across the board. We had all-time records in cloud, in video, in AppleCare, in payments and June quarter records in App Store, advertising and Music. So we saw improvement in all our Services categories.

We think the situation will continue to improve as we go through September. And that's very positive because not only good for the financial results, but obviously, it shows a

high level of engagement of our customers in the ecosystem, which is very important for us. And it's really the sum of all the things that I mentioned in my prepared remarks. It goes from the fact that our installed base continues to grow, so we've got a larger pool of customers, to the fact that our customers are more engaged as we have more transacting accounts and paid accounts on the ecosystem. And the subscriptions business is very healthy with growth of 150 million paid subscriptions just in the last 12 months. It's almost double to what we had 3 years ago. And of course, we are providing more and more content to our users. And so the combination of all these things gives us good confidence for September.

Michael Ng

Great. And just as a related follow-up, it's about the hardware installed base and Services ARPU. I was curious when you talked about the Services strength, you talked about the 2 billion-plus installed base. When you think about the opportunity to increase the Services ARPU, do you really think about it internally on a per-active-iPhone user basis or on a per-device basis? Said differently, I'm just curious where you think about -- whether you think there's an incremental opportunity for those users that have multiple devices. Do you really see a big Services ARPU uplift in that respect?

Luca Maestri

Well, we know that customers that own more than one device are typically more engaged in our ecosystem. And so obviously, they tend to also spend more on the Services front. I would say the biggest opportunity is that we know that there's a lot of customers that we have that are very familiar with our ecosystem. They are engaged in the ecosystem. But still today, they're using only the portion of the ecosystem that is free. And so we think that by offering better content and more content over time, we're going to be able to attract more of them as paid customers.

Operator

Our next question is from Amit Daryanani with Evercore.

Amit Daryanani

I have 2 as well. I guess, Luca, maybe if you can talk about Wearables a bit. The growth over there, I think, in constant currency was fairly impressive at plus 6%. Can you just touch on maybe what's driving that? And then how do we think about the Wearables segment heading into the September quarter? I know you talked about a bunch of other ones, but how do we think about Wearables into September as well?

Luca Maestri

Sorry, Amit, I didn't get the -- what are you referring to?

Amit Daryanani

Yes. Sorry. I was hoping you could talk a bit about the Wearables segment because the growth over there was fairly impressive. And then how do you think about it into September as well?

Luca Maestri

Yes. On the Wearables front, we had really good performance in Greater China. And that's, again, very important for us. It was a June quarter record for Greater China. Very important for us because, again, it shows that the engagement with the ecosystem in a market that is so important for us like China continues to grow. It means that there's more and more customers that are owning more than the iPhone.

Also, we continue to grow the installed base of the category very quickly because, as I mentioned, 2/3 of every buyer of Apple Watch during the course of the June quarter was new to the product. And so that is all additive to the installed base. So it's just great to see that the AirPods continue to be a great success in the marketplace for us. And so things are moving in the right direction there. It's become a very large business for us in Wearables, Home and Accessories. The last 12 months, we've done \$40 billion of business, which is nearly the size of a Fortune 100 company. So it's become very important, and it's allowed us to diversify both our revenues and our earnings.

Amit Daryanani

That's really helpful. And then if I could just follow up, the Europe growth, the growth in Europe at up 5% is totally notable as well. I think you have a few emerging markets that you put in Europe as well. But I would love to understand what's happening in Europe and if there's a way to think about sort of Western Europe or developed world versus emerging markets over there.

Luca Maestri

Yes. It's been very good, primarily on the emerging market side of Europe. We include India and the Middle East and Central and Eastern Europe into the Europe segment. But as we mentioned at the beginning of the call, we had a number of markets that did very well, like France, like Italy, the Netherlands, Austria. So it was a good quarter for Europe.

Operator

Our next question is from Harsh Kumar with Piper Sandler.

Harsh Kumar

I have one for Luca and then later on one for Tim. So Luca, for some time now, for many quarters, you've had a currency headwind or foreign exchange currency headwind. It's conceivable that as rates start to come down, hopefully next year that the dollar weakens. Could you take us through the mechanism of how that will work on your revenues and for your costs?

Luca Maestri

So we tend -- we try to hedge our foreign exchange exposures because we think it's the right approach for the company in terms of minimizing the volatility that necessarily happens from the movements of currencies. We cannot effectively hedge every single exposure around the world because in some cases, it is not possible. In other cases, it is prohibitively expensive. But we tend to cover all the major currency payers that we have.

About 60% of our business is outside the United States. So it's a very, very large and, I would say, very effective hedging program. And so we set up these hedges, and they tend to roll over very regularly. And then we replace them with new hedges at the new spot rate. So the impact that we're going to have on revenue and cost will depend on where the spot rates are at different points in time. And therefore, because of the way the program works, tends to be a bit of a lag in both directions as the foreign exchange moves over time.

Harsh Kumar

Understood. Very helpful. And for Tim, Tim, historically, for the last many years, carriers in at least the U.S., which I think is your largest market for iPhone, have had programs to help folks upgrade, whether they give a cash rebate or you bring in your old phone, something like that.

I was curious, as you get into your peak December quarter, if you're aware of these programs are in place. And the reason why I'm asking is I think earlier, you mentioned that more than 50% of your phones are sold through some kind of program. I assume the number is even higher in the U.S.

Tim Cook

I don't want to get into revealing specifics in the different carriers. But generally speaking, I would think that it would be quite easy to find a promotion on a phone, provided you're hooking up to a service and either switching services, carriers or upgrading your phone at the same carrier. I think both of those cases today that you can find promotions out there, and I would expect that you'd be able to do that in the December time frame as well.

Operator

Our next question is from Aaron Rakers with Wells Fargo.

Aaron Rakers

I have two as well. So first of all, I just want to kind of ask Tim. Strategically, as we think about the Services growth and kind of the content expansion behind that, I'm curious if you could help us maybe appreciate what you've seen from a sporting perspective in terms of the engagement with MLS, the engagement with Major League Baseball, and how strategically you're thinking about expansion in sports as a key driver of Services growth going forward.

Tim Cook

We're focused on original content, as you know, with TV+. And so we're all about giving great storytellers the venue to tell great stories and hopefully get us all to think a little deeper. And sport is a part of that because sport is the ultimate original story. And for MLS, we're -- we could not be happier with how the partnership is going. It's clearly in the early days, but we are beating our expectation in terms of subscribers, and the fact that Messi went to Inter Miami helped us out there a bit. And so we're very excited about it.

Aaron Rakers

Yes. And as a quick follow-up, I'm just curious, an update on -- you mentioned in your prepared remarks the continued growth that you've seen in India. I'm curious how we think about that market opportunity looking forward. Is there anything that you see evolving that could accelerate the opportunity for iPhone in that large mobile market?

Tim Cook

We did hit a June quarter revenue record in India, and we grew strong double digits. We also opened our first 2 retail stores during the quarter. And it's -- of course, it's early going currently, but they're currently beating our expectation in terms of how they're

doing. We continue to work on building out the channel and putting more investment in our direct-to-consumer offers as well.

And so I think if you look at it, it's the second largest smartphone market in the world. And it's -- so we ought to be doing really well there. And where I'm really pleased with our growth there, we're still -- we still have a very, very modest and low share in the smartphone market. And so I think that it's a huge opportunity for us. And we're putting the -- all of our energies in making that occur.

Operator

Our next question comes from Sidney Ho with Deutsche Bank.

Sidney Ho

Your -- I just wanted to ask about the AI side of things. Your strategy on AI seems quite different than many of your peers, at least you don't talk too much about that, how much you invest in it. Maybe you can elaborate a little bit on that. But related to that, how do you see your investment in this area turning into financial performance in the future? Is it mainly through faster upgrade cycle, maybe higher ASP? Or are you thinking about maybe additional services that you can capitalize on that? And then I have a follow-up.

Tim Cook

If you take a step back, we view AI and machine learning as core fundamental technologies that are integral to virtually every product that we build. And so if you think about WWDC in June, we announced some features that will be coming in iOS 17 this fall, like Personal Voice and Live Voicemail. Previously, we had announced lifesaving features like fall detection and crash detection and ECG. None of these features that I just mentioned and many, many more would be possible without AI and machine learning. And so it's absolutely critical to us.

And of course, we've been doing research across a wide range of AI technologies, including generative AI for years. We're going to continue investing and innovating and responsibly advancing our products with these technologies with the goal of enriching people's lives. And so that's what it's all about for us. And as you know, we tend to announce things as they come to market, and that's our MO, and I'd like to stick to that.

Sidney Ho

Okay. That's fair. Maybe as a follow-up is related to -- you talked about WWDC, where you actually introduced Vision Pro there. Clearly, a very big announcement there. How

should we think about the revenue ramp related to the Vision Pro? Is there any catalysts that we should be thinking about that will drive an inflection of that product?

Tim Cook

Yes. There's enormous excitement around the Vision Pro. We're excited internally. Everybody that's been through the demos are blown away, whether you're talking about press or analysts or developers. We are now shipping units to the developer community for them to begin working on their apps. And we're looking forward to shipping early next year. And so we could not be more excited with that. I'm using the product daily. And so we're not going to forecast revenues and so forth on the call today, but we're very excited about it.

Operator

We will take our last question from Krish Sankar with TD Cowen.

Krish Sankar

I have two of them as well. Number one, on iPhone, Tim, you mentioned about the record number of switchers in the quarter. I'm kind of curious how to think about, given the weak macro and consumer spending, how is the replacement cycle for iPhone? Is it similar, longer, shorter versus prior years? And can you talk a little bit about the demand linearity of iPhone during the June quarter? And then I have a follow-up.

Tim Cook

Switchers were a very key part of our iPhone results for the quarter. We did set a record. We set a record in Greater China, in particular, and it was at the heart of our results there. And we continue to try to convince more and more people to switch because of our -- the experience and the ecosystem and -- that we can offer them. And so I think switching is a huge opportunity for us.

In terms of the upgrade cycle and so forth, it's very difficult to estimate real time what is going on with the upgrade cycle. I would say, if you think about the iPhone results year-over-year, you have to think about the SE announcement in the year ago quarter, the iPhone SE announcement in the year ago quarter. And so that provides a bit of a headwind on the comp. But as Luca said, as he talked about how we're viewing Q4, the September quarter, we see iPhone accelerating in Q4.

Krish Sankar

Got it. Very helpful, Tim. And then my final question is on your retail stores, you obviously have a very large retail footprint and many of your stores seem to have been open for over a year now. How is the foot traffic there? And how do you think about sales or the retail trends in the June quarter and implications for the back half of this year on a seasonality basis?

Tim Cook

I'm sorry, are you talking about our retail stores?

Krish Sankar

Yes, yes, your retail stores.

Tim Cook

Yes. The -- if you look at retail, it's a key part of our go-to-market approach, and it will be so key and such a competitive advantage with Vision Pro. It will give us the opportunity to launch a new product and demo to many people in the stores. And so it has many advantages in it.

And we continue to roll out more stores. As you know, we just opened 2 in India last quarter. We're -- there's still a lot of countries out there that don't have Apple stores that we would like to go into. And so we continue to see it as a key part of how we go to market and love the experience that we can provide customers there.

Saori Casey

A replay of today's call will be available for two weeks on Apple Podcasts, at a webcast of apple.com/investor and via telephone. The number for the telephone replay is 866-583-1035. Please enter the confirmation code 2553017, followed by the pound sign. These replays will be available by approximately 5 p.m. Pacific Time today. Members of the press with additional questions can contact Josh Rosenstock at 408-862-1142. Financial analysts can contact me, Saori Casey, with additional questions at 408-974-3123 while Suhasini Chandramouli is on her maternity leave. Thank you again for joining us.

Operator

Once again, this does conclude today's conference. We do appreciate your participation.

