



Apple Loses All After Hours Gains, Slides After Warning Supply Constraints Will Cost \$4-\$8 Billion

Description

Update (5:45pm EDT): Just when it seemed that AAPL stock would provide the much needed pillar of support to offset the tumbling AMZN and keep the Nasdaq from plunging tomorrow, with its stock initially jumping after hours, AAPL has since sunk, fading an \$8 AH gain and dropping as much as 6% to \$152, after it warned on the earnings call that **supply constraints would cost the company \$4 billion to \$8 billion in the current quarter**, casting a pall on record-setting results that the company just reported.

Covid restrictions, which have swept China in recent weeks, will take a toll on the June quarter, the company said on a conference call, and even though last quarter's sales and profit had topped analysts' estimates, fueled by strong demand for the iPhone and digital services, and the company announced \$90 billion in new stock buybacks, the stock has staged a nearly \$20 reversal lower in the after hours session.



The outlook renewed concerns that supply-chain woes will hamper the tech industry. Apple shares tumbled as much as 6.2% to \$153.50 in late trading after the remarks

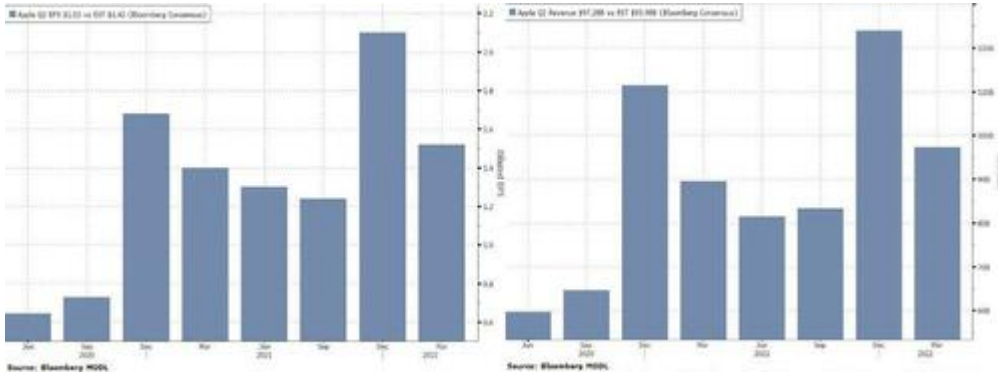
As reported earlier (see below), sales last quarter rose 8.6% to \$97.3 billion, a record for a non-holiday quarter, beating analyst estimates of \$94 billion. EPS of \$1.52 a share also beat consensus estimates of \$1.42, initially sending the shares up in late trading, at least initially..

EARLIER:

Just when traders were getting a deja vu sense of “oh shit, here we go again”, and were bracing for another collapse in the Nasdaq tomorrow after Amazon’s plunge [driven by dismal guidance](#), moments ago the last remaining GAMMA stock, and the world’s most valuable company, Apple may have saved the Nasdaq – and the market – at least until next week’s FOMC, when it reported fiscal Q2 earnings that blew away expectations, and in fact, reported its best non-holiday quarter ever!

Here is what AAPL just reported for its fiscal Q2 quarter.

- Apple 2Q EPS \$1.52, **beating** consensus estimates of \$1.42 (as BBG notes, the 6.8% beat on EPS was only the third single-digit beat in the last two years. It beats by an average 8.1%)
- Apple 2Q Rev. \$97.3B, +8.6% Y/Y, **smashing** consensus estimates of \$93.98B



A breakdown by product category

- iPhone revenue \$50.57 billion, +5.5% y/y, **beating** estimate \$49.16 billion
- Mac revenue \$10.44 billion, +15% y/y, **beating** estimate \$9.23 billion
- iPad revenue \$7.65 billion, -2.1% y/y, **beating** estimate \$7.19 billion
- Wearables, home and accessories \$8.81 billion, +12% y/y, **missing** estimates \$8.98 billion

What is remarkable, **is that this was the best non-holiday quarter for AAPL in history.** Some more details:

- Service revenue \$19.82 billion, +17% y/y, **beating** estimates \$19.78 billion
- Greater China rev. \$18.34 billion, +3.5% y/y
- Gross margin \$42.56 billion, +12% y/y
- Cash and cash equivalents \$28.10 billion, -27% y/y, estimate \$35.81 billion

Earnings snapshot

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In millions, except number of shares which are reflected in thousands and per share amounts)

	Three Months Ended		Six Months Ended	
	March 26, 2022	March 27, 2021	March 26, 2022	March 27, 2021
Net sales:				
Products	\$ 77,457	\$ 72,683	\$ 181,886	\$ 168,361
Services	19,821	16,901	39,337	32,662
Total net sales ⁽¹⁾	97,278	89,584	221,223	201,023
Cost of sales:				
Products	49,290	46,447	113,599	108,577
Services	5,429	5,058	10,822	10,039
Total cost of sales	54,719	51,505	124,421	118,616
Gross margin	42,559	38,079	96,802	82,407
Operating expenses:				
Research and development	6,387	5,262	12,693	10,425
Selling, general and administrative	6,193	5,314	12,642	10,945
Total operating expenses	12,580	10,576	25,335	21,370
Operating income	29,979	27,503	71,467	61,037
Other income/(expense), net	160	508	(87)	553
Income before provision for income taxes	30,139	28,011	71,380	61,590
Provision for income taxes	5,129	4,381	11,740	9,205
Net income	\$ 25,010	\$ 23,630	\$ 59,640	\$ 52,385
Earnings per share:				
Basic	\$ 1.54	\$ 1.41	\$ 3.65	\$ 3.11
Diluted	\$ 1.52	\$ 1.40	\$ 3.62	\$ 3.08
Shares used in computing earnings per share:				
Basic	16,278,802	16,753,476	16,335,263	16,844,298
Diluted	16,403,316	16,929,157	16,461,304	17,021,423
⁽¹⁾ Net sales by reportable segment:				
Americas	\$ 40,882	\$ 34,306	\$ 92,378	\$ 80,616
Europe	23,287	22,264	53,036	49,570
Greater China	18,343	17,728	44,126	39,041
Japan	7,724	7,742	14,831	16,027
Rest of Asia Pacific	7,042	7,544	16,852	15,769
Total net sales	\$ 97,278	\$ 89,584	\$ 221,223	\$ 201,023
⁽¹⁾ Net sales by category:				
iPhone	\$ 50,570	\$ 47,938	\$ 122,198	\$ 113,535
Mac	10,435	9,102	21,287	17,777
iPad	7,646	7,807	14,894	16,242
Wearables, Home and Accessories	8,806	7,836	23,507	20,807
Services	19,821	16,901	39,337	32,662
Total net sales	\$ 97,278	\$ 89,584	\$ 221,223	\$ 201,023

Commenting on the quarter, CFO Luca Maestri said that Apple “set an all-time revenue record for Services and March quarter revenue records for iPhone, Mac, and Wearables, Home and Accessories. Continued strong customer demand for our products helped us achieve an all-time high for our installed base of active devices. Our strong operating performance generated over \$28 billion in operating cash flow, and allowed us to return nearly \$27 billion to our shareholders during the quarter.”

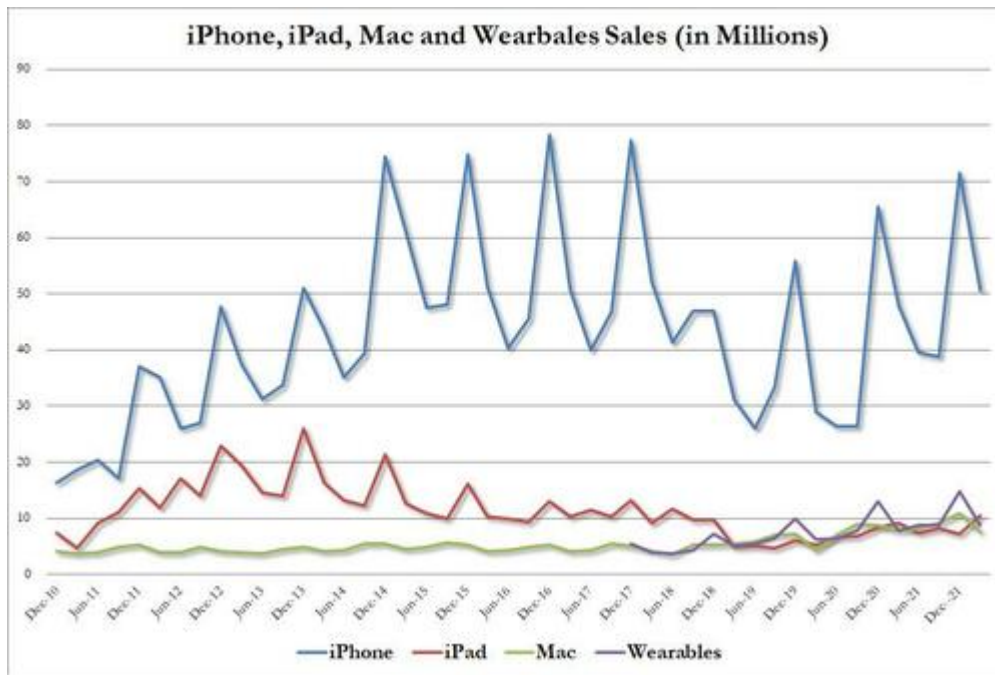
CEO Tim Cook, said that the company experienced supply constraints in the March quarter that were significantly lower than those in the holiday quarter. But they still had an impact on products, including the iPad. Cook said that the shortages were all attributable to industry-wide chip shortages. Cook also said that despite headwinds facing video streaming services like Netflix, he remains very bullish on Apple TV+, citing recent Oscar wins for “CODA” and positive responses to other original programming.

More importantly, Cook said the company is seeing inflationary pressure and is navigating the issue

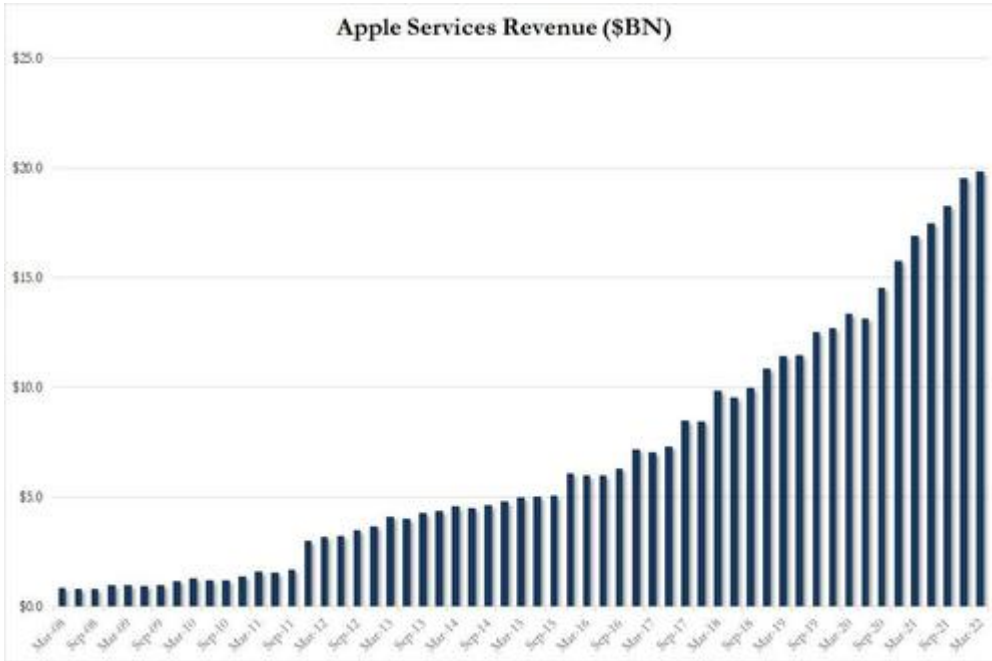
the best it can. Still, Apple saw revenue growth of 21% in its Americas segment. Cook also said iPhone 13 and iPhone SE demand led to 5% growth in the phone segment, and the company has a record number of upgraders in the quarter.

And just in case the blowout earnings were not enough, **AAPL also announced that its board had authorized an increase of \$90 billion to the existing share repurchase program.**

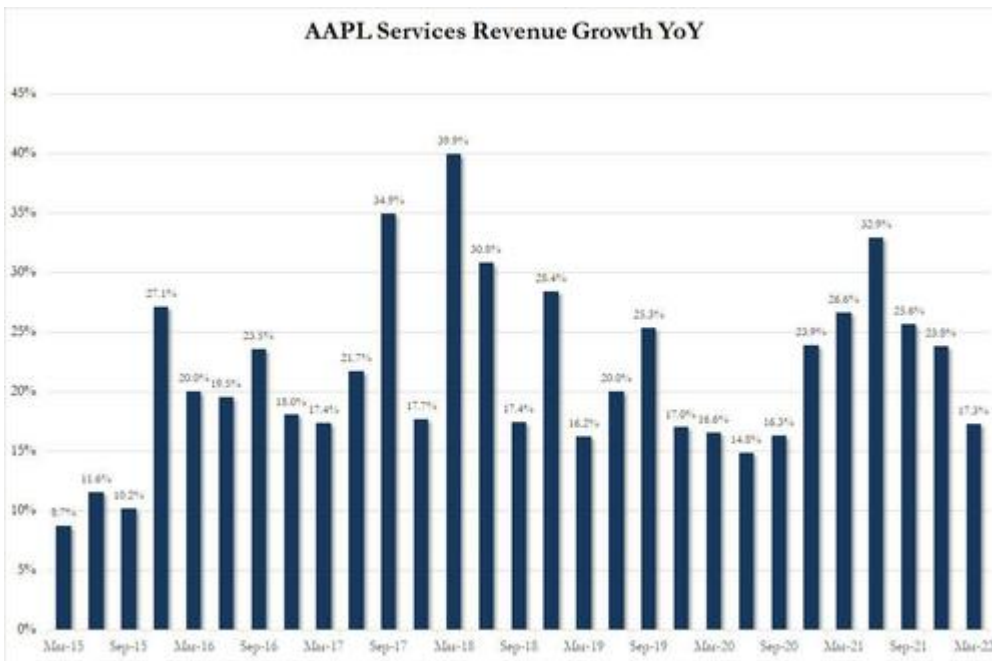
As noted above, AAPL beat on all sales categories, except wearables, with iPhone sales hitting \$50.6 billion, +5.5% y/y, and above estimates \$49.2 billion. The release of the new iPhone SE with 5G probably helped a bit and added at least a billion in sales during its brief appearance in the March quarter. Elsewhere, iPad sales came in at \$7.65BN, down 2.1% Y/Y but also beating estimates of \$7.19BN, while Mac sales also beat estimates of \$9.23BN, rising 15% to \$10.44BN. According to Bloomberg, the Mac number is extremely impressive and probably means the MacBook Pro and new Mac Studio are performing better than anticipated. The move to Apple Silicon away from Intel has paid huge dividends — not only in terms of performance for consumers, but also for Apple's bottom line. The only product miss was in wearables, which came in at \$8.81BN, up 12% Y/Y, but below the \$8.98BN estimate.



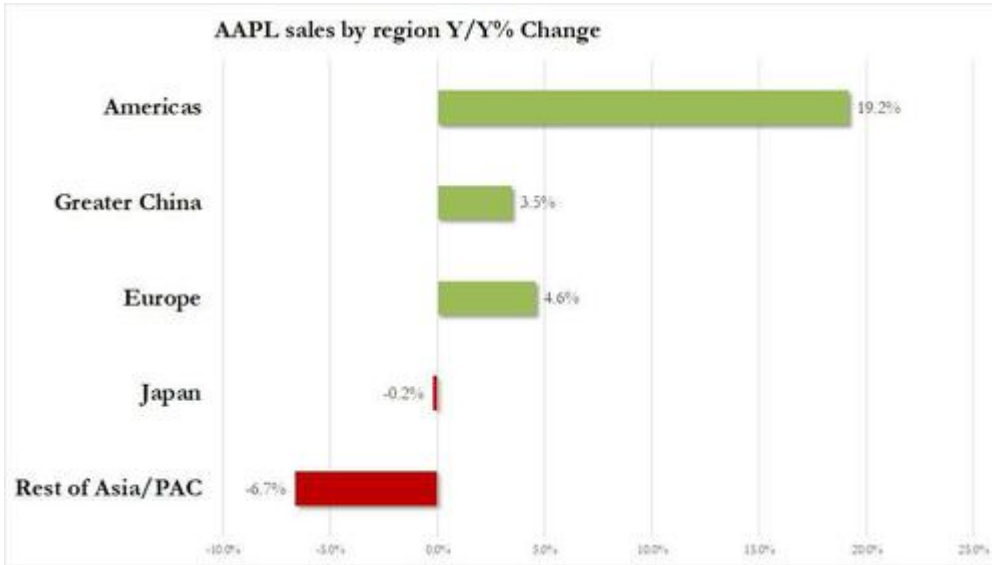
Apple also reported another blowout record quarter for Service Revenues – meaning Apple TV+, Apple Arcade, Apple Music and iCloud subscriptions – which rose to \$19.82BN, beating expectations of \$19.78BN.



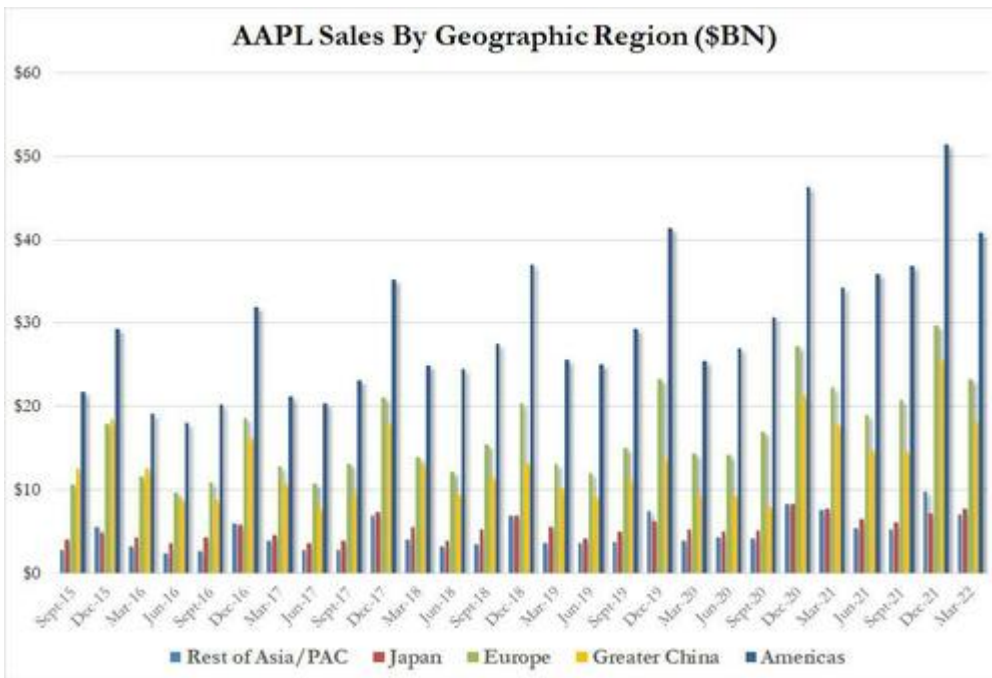
... although the annual increase of 17.3% was a slight drop sequentially from the 25.6% increase last quarter



The geographic breakdown was also solid: most areas showed a boost in sales, apart from a minor drop in Japan and a notable decline in Rest of Asia/PAC. The Americas remains its largest sales area with \$40.882 billion of revenue in the quarter. China was up to \$18.343 billion, growing 3.5%, which however was well below the corporate average. Still, the lack of a drop is notable as many had feared China’s lockdowns would adversely impact both sales and supply chains – particularly around the iPhone.



And in dollar terms:



Commenting on the quarter, Bloomberg' Mark Gyrman said that “the results helped allay concerns about a slowdown in demand for smartphones, especially in China. Apple also has shown it can navigate supply-chain woes brought by the pandemic, though the latest wave of lockdowns in China may take a toll in the current quarter.”

In any case, the results were strong enough – at least initially – to push the stock higher, even if the initial surge is quickly fading after hours.



by Tyler Durden

Category

- 1. Economy-Business-Fin/Invest
- 2. Main

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