

July 23, 2012

## Apple: Did Strong Performance for iPhone Continue in Q2?

### Overview

The Information Technology sector has the third highest earnings growth rate (5.4%) and the second highest sales growth rate (6.1%) of all ten sectors in the S&P 500. However, one company is the dominant contributor to both earnings and revenue growth for the sector: Apple. Excluding Apple, the earnings growth rate for the Information Technology sector would fall to 0%, and the sales growth rate would be cut in half (3.0%).

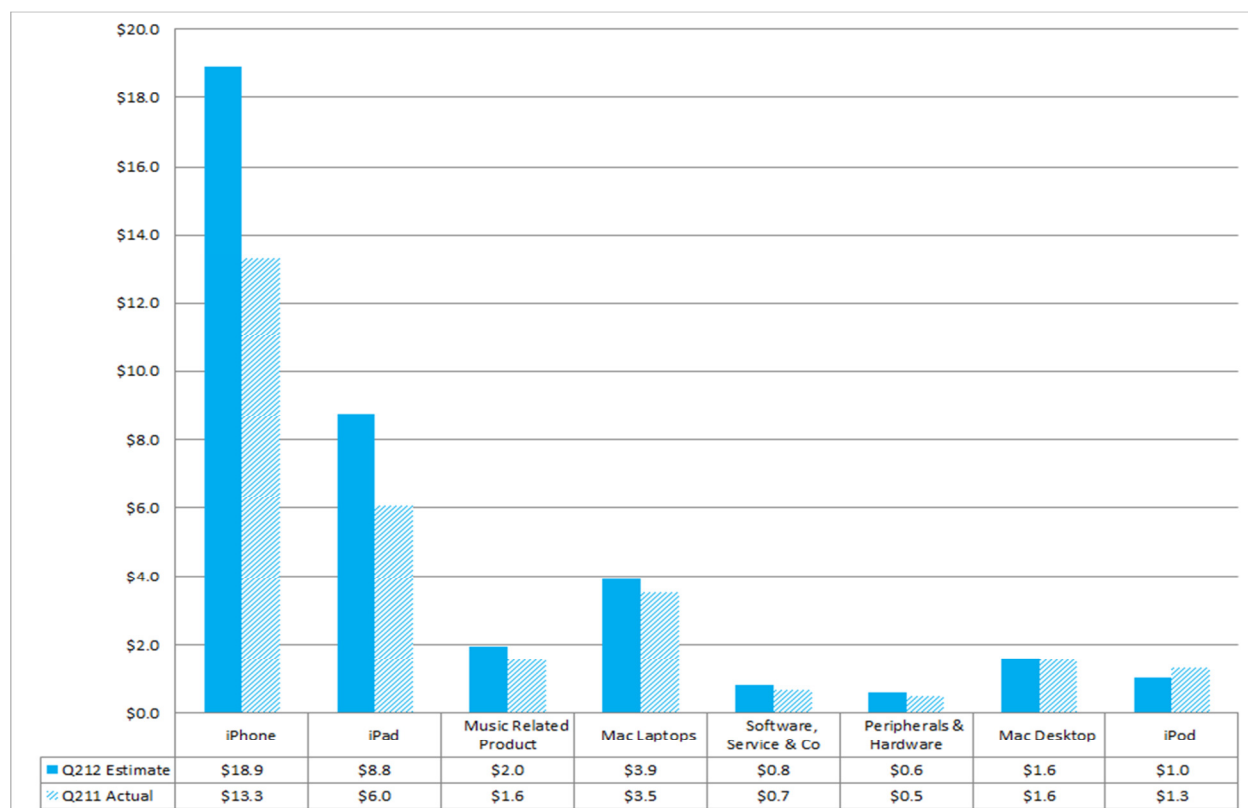
Apple is scheduled to release actual numbers for earnings and revenues on July 24. In terms of EPS, the company is projected to report \$10.38, which reflects growth of 33% compared to year-ago actual EPS of \$7.79. In terms of revenues, the company is predicted to report \$37.5 billion, which reflects growth of 31% relative to year-ago actual sales of \$28.6 billion.

In Q1 2012, Apple reported sales of \$39.2 billion, which reflected year-over-year growth of 59%. At the product segment level, the iPhone was the key driver of sales growth for the quarter. This product segment reported revenues of \$22.7 billion, which represented year-over-year growth of 85%. In addition, the actual sales number of \$22.7 billion was 16.1% above the sales estimate of \$19.5 billion. This was the highest upside revenue surprise compared to the mean estimate for any product segment for the quarter.

Is the iPhone product segment expected to see a similar performance in terms of sales in Q2 2012?

### iPhone and iPad Segment Sales Projected to Drive Growth Again in Q2

Apple: Q2 Product Segment Revenue Estimates (\$B)



Based on current estimates, the iPhone and iPad product segments are again predicted to be the largest contributors to sales growth for Apple in Q2 2012. The iPhone product segment is projected to report revenue of \$18.9 billion, which reflects growth of 42% compared to year-ago sales of \$13.3 billion. The iPad product segment is predicted to report revenue of \$8.8 billion, which reflects growth of 45% relative to year-ago sales of \$6.0 billion. Combined, these two product segments account for 93% of the expected dollar-level revenue growth for Apple in Q2 2012.

However, it is interesting to note that while the current Q2 2012 estimate for iPad sales represents a 32% increase relative to Q1 2012 (on a sequential basis), the current Q2 2012 estimate for sales for the iPhone represents a 16% decline compared to Q1 2012 (on a sequential basis).

So while the iPhone is expected to be the largest contributor to revenue growth for Q2 at the product segment level, it is expecting lower overall sales numbers and lower year-over-year revenue growth relative to the previous quarter.

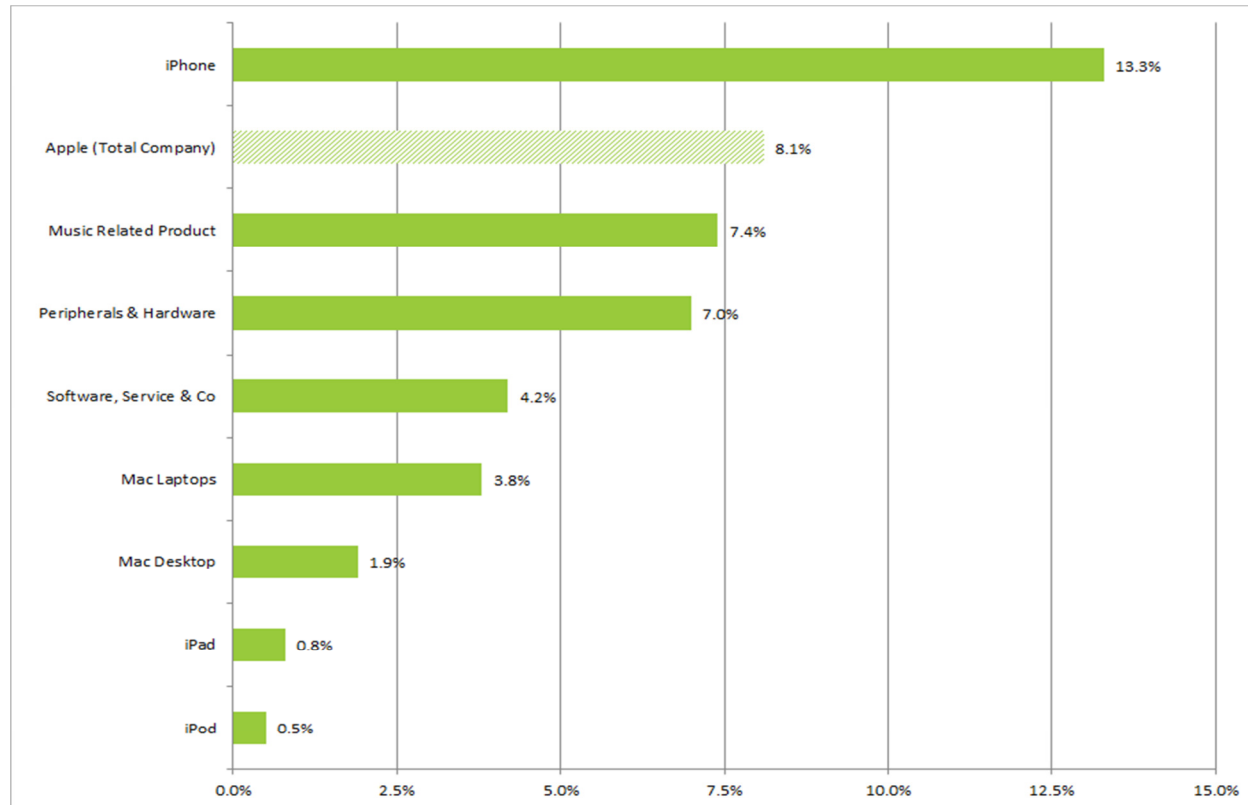
### iPhone Segment Reports Highest Revenue Surprises in Recent Quarters

Over the past five years, Apple has reported actual sales above estimated sales in 18 of the past 20 quarters. During this time, the average revenue surprise (difference between actual sales and estimated sales) has been 6.6%.

Over the past 18 months, Apples has reported actual sales above estimated sales in five of the past six quarters. The average revenue surprise (difference between actual sales and estimated sales) has been 8.1% during this time frame.

How have the eight product segments performed relative to revenue estimates during this time?

Apple: Average Product Segment Revenue Surprise: Prior 6 Quarters



Over the past six quarters, the iPhone product segment has reported the largest average revenue surprise of all eight product segments at 13.3%. This segment has reported sales above estimates in five of the past six quarters.

On the other hand, the iPad product segment has the second lowest average revenue surprise at 0.8%. This segment has reported sales above estimates in just three of the past six quarters.

Compared to the 16.1% revenue surprise reported in Q1, will the iPhone segment report a higher upside revenue surprise in Q2? It is difficult to predict if a product segment (or company overall) will report an upside surprise at all in any given quarter. However, it is interesting to note that the iPhone product segment has reported upside surprises higher than 16.1% in three of the past six quarters (Q4 2011, Q2 2011, and Q1 2011).

### **iPhone: Revenue Not as Good as Q1, But has Reported Recent Upside Sales Surprises**

While the iPhone product segment is still the key driver of revenue growth for Apple in Q2 2012, it is expected to report lower overall revenues (\$18.9 billion vs. \$22.7 billion) and lower year-over-year revenue growth (42% vs. 85%) compared to Q1 2012.

However, the product segment has reported the highest average upside surprises to revenue estimates over the past 18 months. In both Q4 2011 (28.8%) and Q2 2011 (24.0%), the iPhone product segment reported upsides surprises that exceeded 20%. If the segment reported an upside revenue surprise slightly above 20% (20.3% or higher) again for Q2 2012, revenues for the segment and Apple as a whole would show an increase on a sequential basis relative to Q1 2012.

Given Apple's large expected contribution to the overall revenue growth rate for the entire Information Technology, any upside revenue surprise from Apple will increase the overall expected revenue growth rate for the sector as a whole.

## Important Notice

The information contained in this report is provided “as is” and all representations, warranties, terms and conditions, oral or written, express or implied (by common law, statute or otherwise), in relation to the information are hereby excluded and disclaimed to the fullest extent permitted by law. In particular, FactSet and its affiliates disclaim implied warranties of merchantability and fitness for a particular purpose and make no warranty of accuracy, completeness or reliability of the information. This report is for information purposes and does not constitute a solicitation or an offer to buy or sell any securities mentioned within it. The information in this report is not investment advice. FactSet and its affiliates assume no liability for any consequence relating directly or indirectly to any action or inaction taken based on the information contained in this report.

## About FactSet

FactSet (NYSE:FDS) (Nasdaq:FDS) combines integrated financial information, analytical applications, and client service to enhance the workflow and productivity of the global investment community. The company, headquartered in Norwalk, Connecticut, was formed in 1978 and now conducts operations along with its affiliates from twenty-four locations worldwide, including Boston, New York, Chicago, San Mateo, London, Amsterdam, Frankfurt, Paris, Milan, Tokyo, Hong Kong, Mumbai, Dubai, and Sydney.