



How Apple Earned Its Way Back to Most Valuable Public Company Status

Description

Shares of **Apple** ([NASDAQ: AAPL](#)) set a new all-time high in the wake of the company's third-quarter report, and a better-than-expected result on iPhone revenues probably was not the biggest reason why. In this segment of the Nov. 1 [Motley Fool Money](#) podcast, host Chris Hill and Motley Fool senior analysts Jason Moser, Andy Cross, and Ron Gross discuss the ways services and wearables are driving the growth story at Apple, the longer-term pricing power it should have in services, and the impact of its share repurchases and dividends on the investment thesis.

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This video was recorded on Nov. 1, 2019.

Chris Hill: On Friday, Apple reclaimed its crown as the biggest company in the public markets, so we will start there. Shares of Apple hit a new all-time high in the wake of its most recent earnings report. iPhone revenue in the fourth quarter came in higher than expected, Andy, but services segment continues to do well.

Andy Cross: Chris, it's all about the services with Apple, at least on the growth side. As you mentioned, the iPhone business, as we've talked about, pretty stagnant now. They continue to make really good iPhones. The iPhone 11 is seeing good reception. But revenue up 2%, a little higher than guidance. If you back out the iPhone, growth is up 17%. But really about the wearables. The wearables business continues to drive a lot of the growth on the services side, which includes the wearables. Up 18% on the sales. Now makes up 20% of sales but 33% of the gross profits. They now have 33,000 apps across all the platforms. It was the best quarter ever for AppleCare. 450 million now paid subscribers across all of those platforms. Up from 330 million a year ago. That's up 36%. When you look at the growth of Apple, they continue to add and innovate into the wearables side as they continue to build out that ecosystem that is really tied to the iPhone. And, they continue to drive that part of the profit picture. The net income was basically flat to down, but when you add in all the share buybacks, they boosted the EPS by 4%. Really nice quarter, and about what I think investors expected. But the

innovation that they're showing on the wearables side continues to drive the growth.

Jason Moser: I really like how Tim Cook is managing this company beyond the iPhone. I think there were a lot of questions just a few years ago, I think he's answering those questions. We've always talked about Apple being a premium hardware provider. They had some pricing power on that hardware. We're hitting a saturation point there. The ASPs on iPhone are starting to come down a little bit. The neat thing with this business, and I think they can pull this off, it's going to take a little time, but with the services that they're offering, whether it's AppleCare or cloud or music or streaming, there's the opportunity for some pricing power there. I know we talk a lot about those low prices on the video streaming product. If they put out good services, good products, I think that over time, they actually would have the opportunity to raise prices on those services, whether it's the music product, or the video product, or whatever it is. This could be kind of a second act for them, where they could demonstrate some pricing power that maybe some investors aren't really expecting.

Ron Gross: Since 2012, \$288 billion in share repurchases. You add in dividends and it's \$385 billion of capital returned to shareholders. It's an amazing, amazing number. Turning to Apple TV for a second, am I right that you get Apple TV for free for a year if you buy a phone or upgrade?

Gross: Yeah, if you buy one of the qualifying Apple devices starting September 10th, you get 12 months free of Apple TV+.

Gross: And I've heard the shows are terrible.

Gross: It's still early.

Moser: That evolves.

Gross: One should hope.

Moser: They have all the resources in the world to throw at this. It's just going to be a matter of locating some good ideas and then just paying the money that they need to get those things produced.

Gross: So, Jennifer Aniston and Steve Carell are just not getting it done?

Moser: Wasn't getting it done for me, I just couldn't care less about that show. But to your point about the devices, it's iPhone, iPad, Apple TV, and Mac. If you go just a couple of years back, that's in the neighborhood of 80 million devices they sold for the holiday quarter there. So they're going to have tens of millions of instant subscribers here. And it's really about that first year, communicating some kind of value and getting you to grab onto just one piece of content that you like.

Gross: The wearables business overall was up more than 50%. Now, at \$6.5 billion this quarter, it's about as big as the Mac category for Apple.

Hill: To go back to the video streaming service for just a second, you look at all the streaming services. Apple has, I think, very intentionally priced theirs lower than absolutely anyone else's. So, you're right Ron, the early reviews on the first shows right out of the gate are not promising, but **Amazon Prime** had some stumbles out of the gate, so did **Netflix**. Not every show they produced right out of the gate was a hit. When you've got the lowest-priced option, I think that buys you a little bit of permission with customers.

Gross: You have to price it low until the content ramps. What is there, four shows? Six? I forget which. You're not going to pay a premium, certainly, for that. I bet we'll see price hikes as that ramps.

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