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Apple Sets New Bar for Industry

By [JESSICA E. VASCELLARO](#) And [IAN SHERR](#)

Apple Inc., reporting results for the first quarter ending after the death of co-founder Steve Jobs, hit new sales and profit records based on runaway holiday demand for its iPhone and iPad tablet devices.



Reuters

Apple reported its best quarter ever for revenue earnings and iPhone sales.

The Cupertino, Calif., technology maker posted one of the most profitable quarters for a U.S. corporation, pulling in \$13.1 billion on sales of \$46.3 billion. Apple's profit is more than three times what General Electric Co. earned in its most recent quarter. ExxonMobil Corp. had a profit of \$14.8 billion in the third quarter of 2008 but it needed nearly \$140 billion in revenue to generate that income.

Apple's executives said the numbers could have been even higher if the company had been able to manufacture enough iPhones to meet demand.

Sales rose 73% during the quarter ended in December, up from \$26.7 billion a year earlier. Profits more than doubled to \$13.87

per share, up from \$6.43 a share a year ago.



Dow Jones Newswires' John Shipman reports on issues that will move markets on Wednesday, including record sales figures from Apple. Photo by Scott Olson/Getty Images

The figures blew away analysts' projections, which estimated quarterly profits to hit around \$9.6 billion. The performance also raises the bar for both Apple and its peers, setting new highs that may be tough to duplicate or sustain.

The results brought Apple's cash hoard to \$97.6 billion, more than the market capitalizations of all but 52 publicly traded companies, according to Capital IQ.

Behind the strong showing were brisk sales of its hand-held devices. Overall, Apple sold 37 million iPhones and 15.4 million iPads during the quarter.

Apple's shares were up nearly 8% in after-hours trading to \$453.30.

The results brush off some gloom from last quarter, when iPhone sales came up short of expectations as consumers held out to buy a newer iPhone model. At the time, CEO Tim Cook set high expectations for the holiday quarter, saying it would be



Apple's iPhone sales come in at more than 37 million and profit more than doubles for its latest quarter, zooming past analysts' estimates. MarketWatch tech editor Dan Gallagher and Stacey Delo parse the numbers.

Apple Feels Pressure to Use Cash

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Apple is benefiting from a booming market. While many of its competitors have yet to report holiday sales, Forrester Research said ownership of tablets nearly doubled over the holidays, to 19% of U.S. adults in early January from 10% in mid-December.

smartphone in the three months ending in December, compared to 44.5% who bought iPhones, according to Nielsen, which surveys consumers. In October, the spread was bigger: 61.6% purchased an Android device and 25.1% purchased an iPhone.

Now the onus is on Apple to continue keeping up with sky-high expectations.

Some investors said Apple must tap some big new markets to keep up its record-breaking growth.

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With a market cap of \$419 billion, Apple has surpassed Exxon's \$415 billion market valuation, Jessica Vascellaro reports on digits. Photo: AP.

record-breaking.

Apple met them, as it introduced the iPhone 4S, and Sprint Nextel Corp. started selling iPhones for the first time.

While consumers are still buying more phones powered by Google's Android operating system than iPhones by a significant margin, Apple made some gains in the recent quarter. Around 46.9% of consumers bought an Android

smartphone in the three months ending in December, compared to 44.5% who bought iPhones, according to Nielsen, which surveys consumers. In October, the spread was bigger: 61.6% purchased an Android device and 25.1% purchased an iPhone.

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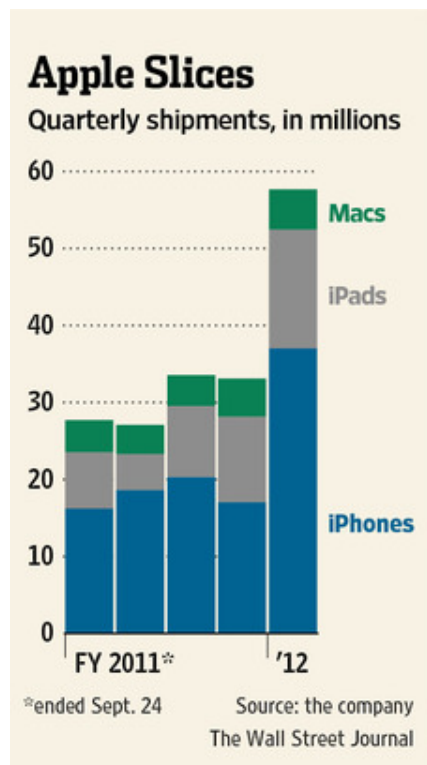
The company has its eye on televisions and it is expected to release a new iPad this year, according to people familiar with the matter. The company has declined to comment.

Amid management changes and tough competition, the results demonstrate how the company is widening the gap between itself and other technology players. While rivals from Samsung Electronics Co. to Amazon.com Inc. have jumped into the same fields with tablets, phones and media services, Apple continues to fend off competitors, even without major hardware upgrades and the marketing panache of Mr. Jobs, who died in October.

"Demand for iPhones and iPads was off the charts for the quarter," said Apple chief financial officer Peter Oppenheimer in an interview. He added that Apple struggled to meet demand for its iPhones and that the device was on "significant" backlog at the end of the quarter.

The results also highlight a shifting tech landscape. On Sunday, BlackBerry maker Research In Motion Ltd. said it was replacing its two longtime co-chief executives, with the device losing ground to the iPhone in recent years. Last year, Motorola Mobility Holdings Inc. agreed to sell itself to Google Inc., whose Android software is one of Apple's biggest threats.

Apple signaled that it wasn't concerned its streak would end anytime soon. The company, which has traditionally been conservative with its forecasts, provided an outlook for the current quarter ending in late March that surpassed Wall Street expectations. Apple said it expects fiscal second-quarter earnings of about \$8.50 a share on revenue of about \$32.5 billion, above analyst estimates of profit of \$8.04 a share on \$32.1 billion in revenue, as compiled by Thomson Reuters.



"Apple's momentum is incredibly strong and we have some amazing new products in the pipeline," Mr. Cook said in a statement.

Over the quarter, Apple's business not only benefited from stronger demand but also lower component costs, highlighting how the company's supply chain remains an advantage over rivals. Apple's gross margin widened to 44.7% from 38.5% in the year-ago quarter, as Mr. Cook said the company's component costs had fallen significantly.

Bill Kreher, an analyst with Edward Jones, said falling component costs benefited Apple more than other companies because its cash allows it to buy at a greater scale, as does the fact it uses similar parts across its product lines.

On a call with analysts, Mr. Cook said that iPhone sales were particularly strong in the U.S. and Japan. "It turns out we didn't bet high enough," he said. iPhone sales in China were also very strong, he said.

Sales of the iPad were a large contributor, more than doubling from the previous year's quarter even as less expensive new competitors, such as Amazon.com's Kindle Fire tablet, hit the market during the holiday season.

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But shoppers like Rowdy Scarlett, of Winston-Salem, N.C., recently purchased an iPad over tablets made by Amazon.com and Motorola because it had more functions, allowing him to use it instead of a laptop, he said. He added that the iPad seemed less "buggy."

"Considering I am not really an Apple guy, it has been very easy to use," Mr. Scarlett said of the \$499 iPad model.

Mr. Cook said he followed iPad sales data on a weekly basis after Amazon launched the Kindle Fire and "there wasn't an obvious effect on the numbers plus or minus."

He added that the iPad has cannibalized some Mac sales, which are still strong, but "we continue to believe there is much more cannibalization of Windows PCs by the iPad...We love that trend."

Meanwhile, as Apple's cash pile has grown, so have calls for the company to do something with it. Apple buys small companies, typically with price tags of less than \$1 billion, and it doesn't issue dividends.

Analysts grilled Apple about the issue. "We recognize that the cash is growing for all the right reasons," Mr. Oppenheimer said in response, adding that the company has continued to discuss the issue of what to do with the money internally. "In the meantime, we're not letting it burn a hole in our pockets," he said.

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