



QUESTION

aapl get me a simple one pager on Apple, with the main challenges and opportunities in the year ahead.

Apple Going Into FY2027: A Record Year Built on One Product, With a Cost Warning Attached

The answer

Apple is finishing FY2026 as its best year ever and warning about the next one in the same breath. Nine-month revenue was **\$364.4bn, up 16%**, with net income of **\$101.5bn** — already 91% of all of FY2025's profit with a quarter left (AAPL 10-Q, Q3 FY2026, filed 2026-07-31). June-quarter gross margin hit **50.1%** versus 46.5% a year earlier.

Two things qualify that. First, the margin is flattered: Apple states roughly **2 percentage points** of the 50.1% came from tariff refunds after the Supreme Court's February 2026 ruling striking down IEEPA tariffs, worth **\$0.11 of the \$2.02 diluted EPS** (AAPL 8-K EX-99.1, 2026-07-30). Second, management writes plainly:

"The Company is experiencing a period of supply constraints and increasing costs for components... including advanced semiconductors, storage (NAND) and memory (DRAM). The Company **expects these trends to intensify.**" (AAPL 10-Q, Q3 FY2026)

That sentence, a Google search-licensing appeal that Apple says could materially hit Services revenue, and a CEO handover effective 1 September 2026 are the year ahead.

Where the growth came from

9M FY2026 vs 9M FY2025 (\$m)	FY26	FY25	Change
iPhone	196,515	160,561	+22%
Services	91,728	80,408	+14%
Mac	27,137	24,982	+9%
iPad	21,700	21,071	+3%
Wearables, Home & Accessories	27,277	26,673	+2%
Greater China (segment)	64,839	49,884	+30%

Source: AAPL 10-Q, Q3 FY2026.

The China reversal is the largest swing in the business. That segment *declined* 4% in FY2025 to \$64.4bn and has already passed the full prior year in nine months (AAPL 10-K, FY2025, filed 2025-10-31). Apple attributes it "primarily due to higher net sales of iPhone," helped by a stronger renminbi, and notes iPhone is now a "moderately

higher proportion” of China revenue — the recovery is concentrated, not broad. iPad fell 6% in Q3 and Wearables remains near-flat; growth is iPhone and Services, full stop.

Challenge 1 — memory costs are the live threat to margin

This is not boilerplate. Apple acted on it. Component inventory rose from **\$2.1bn to \$7.6bn** in nine months while finished goods actually fell (AAPL 10-Q, Q3 FY2026, Note 5) — a 3.6x build. Manufacturing purchase obligations stand at **\$57.0bn, with \$56.2bn payable within 12 months**, up from \$44.6bn a quarter earlier (AAPL 10-Q, Q2 FY2026, filed 2026-05-01).

Inference, not disclosure: Apple is pre-buying memory ahead of expected price rises. That protects near-term cost of sales but leaves the FY2027 cost base exposed once cheap inventory is consumed. Apple’s own caveat is that price increases “may not effectively mitigate these negative impacts, and may also reduce demand.”

The practical point for a reader: Q3’s 40.1% products gross margin is the wrong anchor for next year. Strip the ~2pt tariff benefit, add memory inflation, and Apple’s stated position is that margins face “volatility and downward pressure.”

Challenge 2 — three unresolved legal matters with asymmetric downside

All three are disclosed in AAPL 10-Q, Q3 FY2026:

- **Google search licensing.** The September 2025 remedies order is on appeal by both DOJ and Google. Apple states a reversal “could result in imposition of certain remedies initially proposed by the DOJ, such as those prohibiting Google from offering the Company commercial terms for search distribution,” which “could materially adversely affect the Company’s ability to earn revenue from such licensing arrangements.” This is high-margin Services revenue.
- **EU Digital Markets Act.** Apple was fined €500m under Article 5(4) in April 2025 and has appealed. A final adverse finding in the separate Article 6(4) investigation permits “fines up to 10% of the Company’s annual worldwide net sales” — over \$41bn on FY2025 revenue. Apple also discloses that DMA interoperability rules “have in the past, and may in the future, cause the Company to not launch or maintain products, services and features, **such as Siri AI**, in certain jurisdictions.”
- **Epic.** On 30 June 2026 the Supreme Court granted Apple’s petition on the civil contempt standard. The Ninth Circuit has already held Apple may charge *some* commission on link-out purchases — a partial win, still unresolved.

Challenge 3 — new CEO, and a cost base changing shape

John Ternus became CEO on **1 September 2026**; Tim Cook moved to Executive Chair and Art Levinson to Lead Independent Director (AAPL 8-K, filed 2026-04-20; 8-K/A, filed 2026-09-01). Ternus’s FY2027 award has a target value of \$55m, 75% performance RSUs tied to total shareholder return against the S&P 500; Cook’s is \$45m at 50/50. The succession is orderly and internal, but it lands in the same year as the memory squeeze and the Google appeal.

Spending has stepped up sharply. Nine-month R&D was **\$34.0bn, up 33%**, attributed to “higher infrastructure-related costs, including investments in artificial intelligence, and headcount-related expenses.” Total opex rose 22% against 16% revenue growth.

The composition is more interesting than the total:

Balance sheet shift (\$m)	Jun 27 2026	Sep 27 2025
Gross intangible assets	38,220	24,950
Other non-current liabilities	55,080	41,549
Capex (9M, cash flow)	6,799	9,473 (9M FY25)

Source: AAPL 10-Q, Q3 FY2026. Capex *fell* while intangibles and long-dated liabilities rose sharply. *Inference:* Apple is securing AI compute and licensed IP contractually rather than by building owned infrastructure — consistent with its new risk factor that it “relies on third-party cloud service providers” and may be unable to secure capacity “on commercially reasonable terms, or at all.”

Opportunities

Siri AI is the swing factor. Apple introduced it at WWDC26 and shipped iOS 27 in the June quarter. It is the first cycle where an AI upgrade case coincides with an already-accelerating iPhone line. The filings quantify no Siri AI revenue contribution and I will not infer one — but note the DMA risk above puts its EU availability in question.

Services compounds at 14% on a 76.3% nine-month gross margin, driven by “advertising and cloud services.” It is the highest-quality earnings stream Apple has and also the one most exposed to the Google and App Store rulings; upside and regulatory risk sit in the same line item.

Capital return is enormous and the share count is falling. Apple repurchased \$62.1bn in nine months, authorised a **new \$100bn programme on 30 April 2026** on top of \$38.0bn remaining from the May 2025 programme, and executed \$10.0bn of accelerated share repurchases in May 2026. Diluted shares fell from 15.05bn to 14.75bn year over year. Nine-month operating cash flow was **\$117.0bn**, up from \$81.8bn.

The balance sheet is cleaner. Total term debt fell to \$82.3bn from \$90.7bn and commercial paper to \$2.0bn from \$8.0bn. Shareholders’ equity rose to \$107.5bn from \$73.7bn, with retained earnings turning positive. Apple paid the final \$8.8bn of the 2017 deemed repatriation tax.

What to watch in the FY2026 10-K

Products gross margin excluding tariff refunds; whether component inventory keeps building; whether the \$57bn of near-term manufacturing obligations converts at higher unit cost; the effective tax rate, which has already drifted from 15.4% to 17.6% year over year; and any first disclosure of Siri AI restrictions in the EU.

Left out: segment operating income detail, the DOJ smartphone monopolisation suit (no material development this period), broader executive compensation, and institutional ownership. Apple publishes no forward guidance in its filings, so nothing above is a forecast — it is what the disclosure supports.

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