APPLE · Q4 FISCAL 2026

Apple’s iPhone rebound powered a record quarter, but the profit story is less clean

Apple ended its year with strong demand, led by its flagship product and a recovery in China. Yet a temporary tariff refund and sharply higher investment spending complicate the margin headline.

Analysis based on Apple’s Results Release (8-K, Exhibit 99.1), 2026 Form 10-K (MD&A) and SEC XBRL company facts · Notes at the end

Apple finished fiscal 2026 with a genuinely strong quarter. Revenue climbed 12% to $114.5 billion, with iPhone rather than Services providing the main surge. But profit did not enjoy the same clean acceleration. Operating income rose more slowly than sales, and an unusual tariff refund made the margin look better than the underlying business. The right reading is strong demand paired with profitability that was good, but less exceptional than the headline suggests.[1]

THE BASICS

Apple sells devices led by iPhone, Mac and iPad, then earns recurring revenue from services used across those products. It also sells watches, headphones and home devices. Hardware creates the installed base; advertising, cloud services, payments, apps and subscriptions make that base more valuable over time. The company operates globally, with Greater China among its most consequential markets.

A RECORD QUARTER, BUT NOT A BROAD PRODUCT BOOM

The quarter’s center of gravity was unmistakably iPhone. Sales reached $57.6 billion, up from $49.0 billion a year earlier, an increase of 17.5%. Management says the full-year advance came from higher sales of Pro models. That makes this more than a generic Apple ecosystem story: customers were spending heavily on the company’s most important and often most expensive device.[1,2]

Other growth engines helped, but with different force. Mac sales increased 23.7%, while Services rose 9.8% to $31.6 billion. Services remains a large, recurring business, yet it was not the fastest-growing part of Apple this quarter.[1,2]

The weakness elsewhere matters because it shows that the quarter was not a universal upgrade cycle. iPad sales fell 10.4%, and Wearables, Home and Accessories declined 7.9%. Apple therefore depended heavily on iPhone and Mac to offset contraction in two other hardware categories.[1,2]

China supplied the clearest geographic change. Quarterly sales in Greater China rose 21% to $17.5 billion. That is an important recovery for a market that has been a source of concern, although management says the stronger renminbi also helped the full-year comparison.[1,4]

HOW MUCH OF THE MARGIN IMPROVEMENT WILL REPEAT?

Apple kept more of each sales dollar after the direct cost of making devices and delivering services, but the reported result contains a temporary benefit. Gross margin was 47.9%, including an estimated boost of approximately one percentage point from tariff refunds.[1]

Removing the company’s estimate changes the picture. The margin would have been roughly 46.9%, compared with about 47.2% in the prior-year quarter. This is not a precise alternative result, but it shows the essential point: Apple’s underlying margin did not clearly improve despite the strong sales quarter.[1,3]

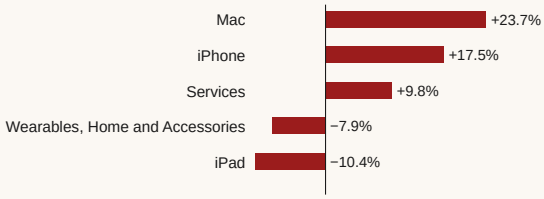
The refund also lifted earnings per share, though it did not drive the whole gain. Apple reported diluted earnings of $2.10 per share, up 14%, including an estimated $0.05 benefit from the refunds. Demand and product mix still did most of the work, but part of the improvement will not recur in the same form.[1]

ONE KEY IDEA

The tariff refund improves the quarter without explaining its sales strength. Apple’s demand performance was real; the reported profitability simply gives it a little too much credit.

Was growth broad across Apple’s lineup?

Change in quarterly sales from a year earlier



Sales growth was concentrated in iPhone and Mac; two other hardware categories contracted. Source: Apple Results Release; Earnings Explained calculations

APPLE IS SPENDING MORE TO BUILD WHAT COMES NEXT

Apple is using part of today's strength to fund a much larger development effort. Quarterly research and development spending rose 32.3% to $11.7 billion, from $8.9 billion a year earlier. Management attributes the full-year increase mainly to infrastructure costs, including artificial intelligence investment, and to employee-related expenses.[1,4]

That spending is one reason sales growth did not translate into faster operating-profit growth. Revenue increased 12%, while operating income rose 9.9% to $35.6 billion. This is not a sign that the core business weakened. It shows that Apple chose to absorb a much heavier development bill during a strong demand quarter.[1]

The trade-off is becoming more visible. Apple is protecting its ability to compete in AI and future devices, but it is doing so before those investments have produced broad growth across the existing lineup. The strategic spending may be necessary; for now, it is also a meaningful cost.

COMPONENT COSTS AND INVENTORY ARE THE NEXT PRESSURE POINTS

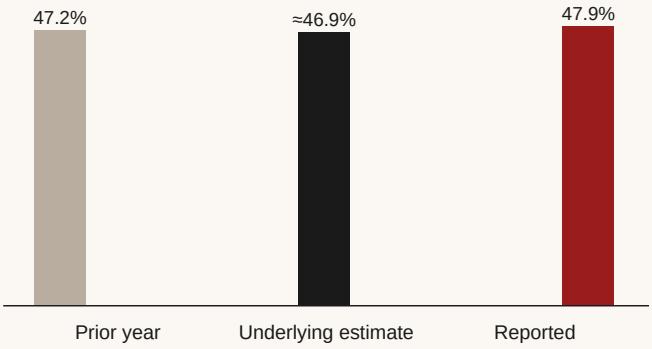
Apple enters the new year with a less comfortable supply backdrop. Management says the company is experiencing constraints and rising costs for advanced semiconductors, memory and storage. It expects the pressure on memory and storage to intensify. That matters because the temporary tariff benefit is fading just as some recurring hardware costs are moving higher.[4]

Apple also ended the year carrying far more inventory. The balance rose to $14.5 billion from $5.7 billion. That build could support product launches or provide a buffer against shortages. It also puts more money into devices and components that still need to move through the supply chain, making the next few quarters' sales pattern worth watching.[1]

Passing higher costs to customers may not provide a simple answer. Apple itself warns that price increases may fail to offset the pressure and could reduce product demand. The next test is therefore not just whether the company can charge more, but whether customers continue to accept those prices across the lineup.[4]

What happens to the margin without the tariff refund?

Share of sales remaining after direct costs

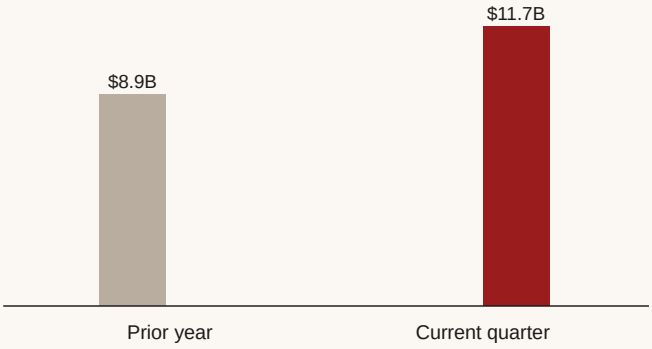


Q4 fiscal 2025 Q4 fiscal 2026 estimated without refund Q4 fiscal 2026 reported

The underlying figure is an Earnings Explained estimate that subtracts Apple's approximate one-percentage-point refund effect. Apple does not report this adjusted margin. Source: Apple Results Release; Earnings Explained calculation

How quickly is Apple increasing development spending?

Quarterly research and development expense, US dollars



Q4 fiscal 2025 Q4 fiscal 2026

Source: Apple Results Release

> *"As a result, the Company believes, in general, gross margins will be subject to volatility and downward pressure."*
>
> Apple management · 2026 Form 10-K

CASH GIVES APPLE ROOM TO MAKE THE TRADE-OFF

Apple has ample internal resources to carry heavier development spending and a larger inventory position. For the full year, the business produced about $136.1 billion of cash after paying for property, equipment and other physical investment, up from $98.8 billion. The improvement was large even after the inventory build.[5]

The company continued to distribute much of that capacity while investing for the future. It spent $86.4 billion on share repurchases and $15.7 billion on dividends during the year. The significance is not the payments themselves, but the flexibility behind them: Apple can fund AI development, manage supply-chain disruption and return cash at the same time.[1]

WHAT IT ALL MEANS · EARNINGS EXPLAINED INTERPRETATION

The quarter was stronger than a simple Services narrative suggests: iPhone led, China recovered and Apple generated enough cash to keep investing aggressively. But the reported margin overstates the underlying improvement, while AI spending and component costs are becoming more visible.

DEMAND

The sales record was real, but concentrated. iPhone and Mac carried a lineup in which iPad and wearables moved backward.

PROFITABILITY

The tariff refund flattered the margin. Without it, Apple appears to have earned slightly less on each sales dollar than a year earlier.

INVESTMENT

Apple is accepting slower profit conversion today to spend much more on AI infrastructure, engineering and staff.

RESILIENCE

Strong cash generation gives the company room to manage that investment, but it does not remove the need for broader product growth.

Three questions for next quarter

1 Can iPhone momentum continue while iPad and wearables remain weak?

The quarter depended heavily on a few product lines, so broader growth would make the sales performance more durable.

2 Does the margin hold after the tariff refund fades and memory costs rise?

The reported margin included temporary help just as management is warning about more persistent component pressure.

3 Will heavier research spending begin to produce growth across more of the business?

Apple is committing substantially more resources to AI and infrastructure while operating profit is growing more slowly than sales.

1 Apple Results Release (8-K, Exhibit 99.1): quarterly income statement, sales by product and geography, tariff-refund estimates, cash flow and capital returns. Quarterly statements are unaudited.

2 Product growth rates in the first chart are Earnings Explained calculations using current- and prior-year quarterly sales reported in the Apple Results Release.

3 The estimated margin excluding tariff refunds subtracts Apple's approximate stated refund effect from the reported margin. It is an analytical estimate, not a company-reported measure. The prior-year margin is calculated from reported sales and gross profit.

4 Apple 2026 Form 10-K (MD&A): management explanations for product and regional growth, research and development spending, component constraints, pricing risk and expected margin pressure.

5 Annual cash left after physical investment is calculated as operating cash flow minus purchases of property, plant and equipment, using SEC XBRL company facts. It is used here to show the resources available after maintaining and expanding the physical business.