

FLASH REPORT

AMAZON (AMZN) 3Q16 RESULTS: CONTINUED STELLAR REVENUE GROWTH, BIG EPS MISS

	3Q16	3Q15	YoY Change
Revenues (USD Bil.)	\$32.7	\$25.4	29.0%
Gross Margin	35.0%	33.9%	109 bps
SG&A/Sales	33.3%	32.3%	93 bps
Operating Margin	1.8%	1.6%	16 bps
EPS	\$0.52	\$0.17	214.4%

Source: Company reports/Fung Global Retail & Technology

- Amazon reported 3Q16 revenues of \$32.7 billion, up 29.0% year over year, in line with the \$32.69 billion consensus estimate and above the guidance range of \$31.0–\$31.5 billion. EPS was \$0.52, below the consensus estimate of \$0.78.
- Amazon Web Services (AWS) remained the fastest-growing segment, with revenues growing by 55.0%, to \$3.2 billion. The electronics and general merchandise category was the largest revenue contributor, with revenues up 31.8% year over year, reaching \$23.4 billion.
- For 4Q16, the company guided for revenues of \$42.0–\$42.5 billion, up 17%–27% year over year, but below the consensus estimate of \$44.6 billion. Amazon also guided for operating income of \$0–\$1.25 billion, below consensus of \$1.62 billion.

3Q16 RESULTS

Amazon reported 3Q16 revenues of \$32.7 billion, up 29.0% year over year, in line with the \$32.69 billion consensus estimate and above the guidance range of \$31.0–\$31.5 billion.

Operating profit was \$575 million, representing a 1.8% operating margin.

EPS was \$0.52, below the consensus estimate of \$0.78.

BY SEGMENT

North America: Revenues were \$18.9 billion, up 25.8% year over year. Segment operating profit was \$255 million, representing a 1.4% operating margin and down 52% year over year.

International: Revenues were \$10.6 billion, up 28.3% year over year. Segment operating loss was \$541 million versus an operating loss of \$56 million in the year-ago quarter.

AWS: Revenues were \$3.2 billion, up 55.0% year over year. Segment operating profit was \$861 million, up 65% year over year.

**BY PRODUCT CATEGORY**

Media: Revenues were \$5.7 billion, up 8.4% year over year.

Electronics and other general merchandise: Revenues were \$23.4 billion, up 31.8% year over year.

OTHER HIGHLIGHTS FROM THE QUARTERAWS

- AWS announced the availability of the US East (Ohio) Region, which brings the total to 38 availability zones. The division plans to open an additional nine availability zones in four regions (Canada, the UK, France and a region in China) in the coming months.

Hardware

- Amazon introduced the all-new version of the Echo Dot, a hands-free, voice-controlled device powered by Alexa.
- CEO Jeff Bezos announced that the Alexa artificial intelligence platform had pleased customers so much that it had received more than 250,000 marriage proposals.
- The company introduced the next generation of the popular Fire TV Stick, which now comes with an Alexa Voice Remote.
- Amazon introduced the Fire HD 8, a new tablet with 12 hours of battery life, more RAM and twice the storage, with a price of \$89.99.

Media

- Since the launch of Amazon Video Direct in May, customers have streamed billions of minutes of content through the service.
- Amazon launched Amazon Music Unlimited, an on-demand music-streaming service. It costs \$7.99 per month for Prime members and \$3.99 per month with the “for Echo” subscription plan.
- Amazon Video won six Emmys and debuted five Amazon original series.
- Amazon introduced new features to the US Prime Photos service; Prime members can now invite up to five friends or family members to join their Family Vault, which includes unlimited photo storage plus an extra 5 GB for video and other files.
- Amazon introduced Prime Reading, through which Prime members can read from a rotating selection of more than a thousand books, magazines, comics and other materials.

4Q16 OUTLOOK

For 4Q16, Amazon guided for revenues of \$42.0–\$42.5 billion, up 17%–27% year over year but below the consensus estimate of \$44.6 billion.

Amazon also guided for operating income of \$0–\$1.25 billion, below the consensus estimate of \$1.62 billion. This range represents EPS of \$(0.22)–\$1.45, versus the consensus estimate of \$2.17.



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