

amazon (AMZN) 4Q16 Results: Earnings Beat, Revenue and Guidance Below Expectations

Figure 1. Amazon 4Q16 Key Metrics

	4Q16	4Q15	YoY Change
Revenues (USD Bil.)	\$43.7	\$35.7	22.4%
Gross Margin	33.8%	31.9%	189 bps
SG&A/Sales	30.9%	28.8%	212 bps
Operating Margin	2.9%	3.1%	(23) bps
EPS (USD)	\$1.54	\$1.00	53.8%

Source: Company reports/Fung Global Retail & Technology

- **Amazon reported 4Q16 EPS of \$1.54, compared with \$1.00 in the year-ago quarter and beating the \$1.37 consensus estimate. Net sales were \$43.7 billion, up 22.4% year over year but missing the \$44.7 billion consensus estimate.**
- **Amazon Web Services (AWS) revenues was up 47.0% but missed consensus estimates. The division contributed 74% of operating profit in the quarter.**
- **Revenue and EPS guidance for 1Q17 were both below consensus estimates.**

4Q16 Results

Amazon reported fiscal 4Q16 net sales of \$43.7 billion, up 22.4% year over year but missing the \$44.7 billion consensus estimate. The revenue miss was largely driven by the stronger USD and weaker than expected holiday sales. Sales would have increased by 24% if a \$558 million impact from unfavorable foreign exchange rate changes had been excluded.

Fulfillment costs were \$5.7 billion, up 25.8% year over year, indicating that fulfillment costs grew at a faster rate than sales.

EPS was \$1.54, compared with \$1.00 in the year-ago quarter and beating the \$1.37 consensus estimate.

Management highlighted the new Amazon Prime services the company added in 2016. These included a 73% increase in the number of items available for two-day shipping, Prime Video becoming available in 200 countries and territories, Prime Now becoming available in 18 new cities, and new programs such as Prime Reading, Audible Channels for Prime and Twitch Prime.

Details from the Quarter

- **Electronics and other general merchandise** revenue was \$32.1 billion, up 24.4%, helped by sales of millions of Fire tablets and Fire TV devices this holiday season.
- **Media** revenue was \$7.6 billion, up 7.6% year over year. Management commented that Prime members more than doubled their number of video, music and reading activities compared with 2015.
- **AWS** revenue was \$3.5 billion, up 47.0% year over year, but came below consensus estimate of \$3.6 billion. AWS opened 11 Availability Zones across five geographic regions, for a total of 42 Availability Zones across 16 infrastructure regions globally. AWS customers migrated more than 18,000 databases and the



FLASH REPORT

division released 308 significant new services and features in the quarter, bringing the total number of launches in 2016 to 1,017.

On a geographic basis:

- Revenue from North America was \$26.2 billion, up 22.0% year over year.
- International revenue was \$14.0 billion, up 17.9% year over year.

FY16 Results

For the full year, revenues were \$136.0 billion, up 27.1% from \$107.0 billion the prior year.

EPS for the year was \$4.90, up from \$1.25 the prior year.

Outlook

For 1Q17, Amazon expects:

- Net sales of \$33.25–\$35.75 billion, up 14%–23% year over year, which includes an impact of \$730 million, or 250 basis points, from unfavorable exchange rates. The consensus estimate calls for net sales of \$35.99 billion.
- Operating income of \$250–\$900 million, compared with \$1.1 billion in the year-ago quarter. This translates to EPS of roughly \$0.22–\$1.10, below the consensus estimate of \$1.61.



FLASH REPORT

Deborah Weinswig, CPA

Managing Director
Fung Global Retail & Technology
New York: 917.655.6790
Hong Kong: 852.6119.1779
China: 86.186.1420.3016
deborahweinswig@fung1937.com

John Harmon, CFA
Senior Analyst

Hong Kong:

8th Floor, LiFung Tower
888 Cheung Sha Wan Road, Kowloon
Hong Kong
Tel: 852 2300 4406

London:

242–246 Marylebone Road
London, NW1 6JQ
United Kingdom
Tel: 44 (0)20 7616 8988

New York:

1359 Broadway, 9th Floor
New York, NY 10018
Tel: 646 839 7017

FungGlobalRetailTech.com