



amazon (AMZN) 1Q17 Results: Beats Consensus, Guides Down for 2Q Profit

Figure 1. Amazon 1Q17 Key Metrics

	1Q17	1Q16	YoY Change
Revenues (USD Bil.)	\$35.7	\$29.1	22.6%
Gross Margin	37.2%	35.2%	194 bps
SG&A/Sales	34.2%	31.4%	283 bps
Operating Margin	2.8%	3.7%	(86) bps
EPS (USD)	\$1.48	\$1.07	38.5%

Source: Company reports/Fung Global Retail & Technology

- Amazon reported 1Q17 EPS of \$1.48, compared with \$1.07 in the year-ago quarter and beating the \$1.08 consensus estimate. Net sales were \$35.7 billion, up 22.6% year over year and beating the \$35.3 billion consensus estimate.
- Amazon Web Services (AWS) continued to be a strong business driver, with revenues up 42.7%. The segment contributed 89% of operating profit in the quarter.
- Guidance for 2Q17 is for revenues of \$35.25–\$37.75 billion, in line with consensus, and for operating income of \$425 million–\$1.075 billion, below consensus of \$1.46 billion.

1Q17 Results

Amazon reported 1Q17 net sales of \$35.7 billion, up 22.6% year over year and beating the \$35.3 billion consensus estimate. Sales would have increased by 24% if the \$492 million impact from unfavorable foreign exchange rate changes were excluded.

Fulfillment costs were \$4.7 billion, up 27.4% year over year, meaning they grew faster than sales.

EPS was \$1.48, compared with \$1.07 in the year-ago quarter and beating the \$1.08 consensus estimate.

Management highlighted revenue growth in the quarter, particularly in India, which saw 75% growth in Prime product selection, a 26% increase in fulfillment capacity and the announcement of 18 Indian original TV series.

Details from the Quarter

Amazon introduced a new revenue breakdown methodology in the quarter; it no longer classifies revenue by media, international and AWS.

Results were as follows:

- **Retail products** (product sales and digital media content) revenue was \$22.8 billion, up 16% year over year excluding currency effects.
- **Retail third-party seller services** (commissions, related fulfillment and shipping fees, and other third-party seller services) revenue was \$6.4 billion, up 34% excluding currency effects.



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- **Retail subscription services** (annual and monthly fees associated with Amazon Prime membership, as well as audiobook, e-book, digital video, digital music and other subscription services) revenue was \$1.9 billion, up 52% excluding currency effects.
 - **AWS** revenue was \$3.7 billion, up 43% year over year. The segment reported an operating profit of \$890 million, up 47% year over year, and accounted for 89% of corporate operating profit.

On a geographic basis:

- Revenue from **North America** was \$21.0 billion, up 23.5% year over year.
- Revenue from **International** was \$11.1 billion, up 29.1% year over year.

Outlook

For 2Q17, Amazon expects:

- Net sales of \$35.25–\$37.75 billion, up 16%–24% year over year, which includes a negative impact of \$720 million, or 240 basis points, from unfavorable exchange rates. The consensus estimate is for net sales of \$37.0 billion.
- Operating income of \$425 million–\$1.075 billion, compared with \$1.07 billion in the year-ago quarter and below the \$1.46 billion consensus estimate. This translates to EPS of roughly \$0.55–\$1.55, below the consensus estimate of \$1.81.

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