

amazon (AMZN) 2Q17 Results: Strong Revenues, but 2Q and Guidance for 3Q Operating Income Below Consensus

Figure 1. Amazon 2Q17 Key Metrics

	2Q17	2Q16	YoY Change
Revenues (USD Bil.)	\$38.0	\$30.4	24.8%
Gross Margin	38.2%	36.9%	130 bps
SG&A/Sales	36.6%	32.7%	387 bps
Operating Margin	1.7%	4.2%	(257) bps
EPS (USD)	\$0.40	\$1.78	(77.5)%

Source: Company reports/FGRT

- **Amazon reported 2Q17 EPS of \$0.40, compared with \$1.78 in the year-ago quarter and missing the \$1.41 consensus estimate. Net sales were \$38.0 billion, up 24.8% year over year and beating the \$37.2 billion consensus estimate.**
- **Retail Subscription Services was the fastest-growing segment, growing by 51.3% in the quarter, followed by Amazon Web Services (AWS) at 42.1%.**
- **Guidance for 3Q17 is for revenues of \$39.25–\$41.75 billion, with the \$40.5 billion midpoint above consensus, and for operating income of \$(400)–\$300 million, well below consensus of GAAP operating income of \$931 million.**

2Q17 Results

Amazon reported 2Q17 net sales of \$38.0 billion, up 24.8% year over year and beating the \$37.2 billion consensus estimate. Sales would have increased by 26% if the \$502 million impact from unfavorable foreign exchange rate changes were excluded.

Total operating expenses were \$13.9 billion, up 39.6% year over year, i.e., growing faster than revenues.

EPS was \$0.40, versus \$1.78 in the year-ago quarter and missing the \$1.41 consensus estimate.

Management highlighted its continuing focus on customers, with accompanying investments that include the launch of the new Echo Show (which has a screen) and the launch of Amazon Channels in the UK and Germany. The company also noted its launch of the 25th Prime Air airplane and the hiring of 30,000 new employees.

Details from the Quarter

Results according to Amazon's new breakdown, which was introduced in 1Q17, were as follows (all figures are excluding currency effects):

- **Retail products** (product sales and digital media content) revenue was \$23.8 billion, up 18% year over year.
- **Retail third-party seller services** (commissions, related fulfillment and shipping fees, and other third-party seller services) revenue was \$7.0 billion, up 40%.
- **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 \$2.2 billion, up 53%.
- **AWS** revenue was \$4.1 billion, up 42% year over year.



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Operating profit of \$628 million comprised:

- **North America:** \$436 million
- **International:** \$(724) million
- **AWS:** \$916 million

On a segment basis:

- Revenue from **North America** was \$22.4 billion, up 26.6% year over year.
- Revenue from **International** was \$11.5 billion, up 30.3% year over year.
- Revenue from **AWS** was \$4.1 billion, up 42.1% year over year.

Outlook

For 3Q17, Amazon expects:

- Net sales of \$39.25–\$41.75 billion, up 20%–28% year over year, which includes a negative impact of \$125 million from unfavorable exchange rates. The consensus estimate is \$40.0 billion.
- Operating income of \$(400)–\$300 million, compared with \$575 million in the year-ago quarter and below the \$931 million consensus estimate. This translates to EPS of roughly \$(0.83)–\$0.44, well below the \$1.11 consensus estimate.



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