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**(AMZN) 3Q17 Results: Another Blowout Quarter, with 34% Sales Growth**
**Figure 1. Amazon 3Q17 Key Metrics**

	3Q17	3Q16	YoY Change
Revenues (USD Bil.)	\$43.7	\$32.7	33.7%
Gross Margin	22.3%	21.8%	58 bps
SG&A/Sales	21.6%	20.0%	155 bps
Operating Margin	0.8%	1.8%	(96) bps
GAAP EPS (USD)	\$0.52	\$0.52	(0.3)%

Source: Company reports/FGRT

- Amazon reported 3Q17 EPS of \$0.52, flat year over year but beating the \$0.07 consensus estimate. Net sales (including Whole Foods Market) were \$43.7 billion, up 33.7% year over year and beating the \$41.6 billion consensus estimate.
- Subscription services was the fastest-growing segment, growing by 59% in the quarter, followed by Amazon Web Services (AWS) at 42%. Amazon also broke out \$1.3 billion of revenue from its physical stores.
- Guidance for 4Q17 calls for revenues of \$56.0–\$60.5 billion, above the \$54.2 billion consensus estimate, and for operating income of \$300 million–\$1.65 billion, whose midpoint is below the \$1.50 billion consensus estimate.

**3Q17 Results**

Amazon reported 3Q17 net sales of \$43.7 billion, up 33.7% year over year and beating the \$41.6 billion consensus estimate. The figure includes \$1.3 billion in revenue from Whole Foods, which Amazon acquired on August 28. Sales would have increased by 29% excluding Whole Foods and a \$124 million favorable impact from currency exchange.

SG&A was \$9.4 billion and was up 44.1% year over year, meaning it grew faster than revenues.

EPS was \$0.52, flat year over year but beating the \$0.07 consensus estimate.

Management highlighted the launch of five new Alexa-enabled devices, the introduction of Alexa in India, the announcement of an integration with BMW, Alexa's skill count exceeding 25,000, Alexa's integration with Sonos speakers, and its ability to distinguish between two voices.

**Details from the Quarter**

Amazon announced another new revenue breakdown format, which includes its physical stores, following an earlier change in 1Q17 (year-over-year changes below exclude currency effects):

- **Online stores** (product sales and digital media content) generated revenues of \$26.4 billion, up 22% year over year.
- **Physical stores** generated revenues of \$1.3 billion.



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- **Third-party seller services** (commissions, related fulfillment and shipping fees, and other third-party seller services) generated revenues of \$7.9 billion, up 40% year over year.
- **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) generated revenues of \$2.4 billion, up 59% year over year.
- **AWS** revenue was \$4.6 billion, up 42% year over year.
- **Other** (excluding Whole Foods) revenue was \$1.1 billion, up 58% year over year.

Operating profit of \$347 million comprised:

- **North America:** \$112 million
- **International:** \$(936) million
- **AWS:** \$1,171 million

On a segment basis:

- Revenue from **North America** was \$25.4 billion, up 35% year over year.
- Revenue from **International** was \$13.7 billion, up 28% year over year.
- Revenue from **AWS** was \$4.6 billion, up 42.1% year over year.

#### Outlook

For 4Q17, Amazon expects:

- Net sales of \$50.6–\$60.5 billion, up 28%–38% year over year, which includes a positive impact of \$1.2 billion from favorable exchange rates and a positive impact of 1,000 basis points from the acquisition of Whole Foods. The consensus estimate calls for net sales of \$54.2 billion.
- Operating income of \$300 million–\$1.65 billion, whose midpoint is below the \$1.5 billion consensus estimate. Operating income in the year-ago quarter was \$1.26 billion. This guidance translates to EPS of roughly \$0.35–\$2.02 (using a 39% tax rate), compared with the consensus estimate of \$1.80.



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