

Amazon 4Q results, outlook sends stock lower

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This Jan. 26, 2012 photo, shows a webpage on Amazon.com featuring Kindle e-book readers on a computer screen in Miami. Amazon.com Inc., reports quarterly financial results Tuesday, Jan. 31, 2012, after the market close.(AP Photo/Wilfredo Lee)

Shoppers spent more money online this holiday season than ever before, and yet, Amazon -the world's largest Internet retailer- failed to meet Wall Street's sales expectations with its latest financial results.

In a surprise, the company's revenue fell nearly \$1 billion short of Wall

Street's expectations, even as it grew 35 percent from a year earlier. The quarter included Amazon's headline-grabbing November launch of the Kindle Fire, its answer to Apple's iPad. Its net income also fell sharply and its guidance for the current quarter was disappointing.

Investors punished the stock. Amazon's shares dropped \$17.44, or 9 percent, to \$177 in after-hours trading on Tuesday following the earnings announcement.

Though revenue grew 35 percent to \$17.4 billion, analysts expected the holidays to lift sales to \$18.3 billion, according to FactSet.

Even so, BGC Financial analyst Colin Gillis said the company "didn't really give a good answer" as to why its revenue fell short of expectations. And while its earnings were stronger than expected, he said the company has been "more revenue driven than earnings driven."

That explains why investors focused on the company's sales growth. With a stock valued as high as Amazon's, they are looking for any sign of a slowdown as an excuse to sell.

Meanwhile, Amazon's expenses are increasing. Operating expenses grew 38 percent to \$17.2 billion. The company has been investing heavily in new sales-fulfillment centers. Investments such as these cut into profits during all of last year.

Seattle-based Amazon.com Inc. said that its net income was \$177 million, or 38 cents per share, in the three months that ended Dec. 31. That's down 57 percent from \$416 million, or 91 cents per share, a year earlier. Earnings dropped, the company said, as it continued to invest in sales fulfillment centers and increased its workforce by 67 percent from a year earlier.

For the current quarter, Amazon is forecasting \$12 billion to \$13.4 billion in revenue. Analysts were expecting \$13.42 billion. The company also said it may record an operating loss for the quarter. Its outlook was in the range of a loss of \$200 million to a profit of \$100 million for the three months ending in March.

Analysts had been worried about Amazon's profit margins because of the heavy operating expenses, but they had expected stronger revenue growth.

Although the company's earnings of 38 cents a share were well above Wall Street expectations of 17 cents, investors seemed to focus on the bad news elsewhere.

Amazon said sales of its Kindle tablet computers and e-reader gadgets nearly tripled compared with the final quarter of 2010. The company did not give exact sales numbers for the devices.

The Kindle Fire, Amazon's \$199 tablet, went on sale in November. The company sees the Kindle as a way to drive sales of digital content such as e-books, music, movies and apps.

CEO Jeff Bezos said the Kindle was Amazon's bestselling product during the holiday season in both the U.S. and Europe.

Sales at Amazon's media business, which includes books, DVDs, and content consumed on the Kindle, grew 15 percent to \$6 billion. Sales from electronics and other general merchandise, which includes the Kindle devices, jumped 48 percent to \$10.9 billion.

The company grew its employee base 67 percent from a year earlier, ending the year with 56,200 full-time and part-time workers. Chief Financial Officer Tom Szkutak said the job additions were in operations

and customer service to support Amazon's growth.

For all of 2011, Amazon earned \$631 million, down from \$1.15 billion a year earlier. Revenue grew to \$48.1 billion from \$34.2 billion.

Amazon's stock dropped \$17.44, or 9 percent, to \$177 in after-hours trading following the earnings announcement.

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