

Amazon sales surge, but spending bites into profit (Update)

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US online giant Amazon reported higher sales but weaker earnings, following a familiar pattern of the firm led by Jeff Bezos of putting growth ahead of short-term profits

Internet colossus Amazon on Thursday reported its profit shrank in the recently ended quarter despite surging sales as it poured money into growth.

The US-based company said that net sales increased 25 percent to \$38 billion when compared to the same period last year, but that profit plunged 77 percent from a year ago to \$197 million.

Investments, depreciation of equipment, share buys and other expenses ate into revenue in a familiar pattern of Amazon putting long-term growth ahead of short-term profit.

"Our teams remain heads-down and focused on customers," Amazon founder and chief executive Jeff Bezos said in a release.

"It's energizing to invest on behalf of customers, and we continue to see many high-quality opportunities to invest."

Amazon has been expanding from its original mission as an online retailer to a diversified tech firm in cloud computing, online video, computer hardware and artificial intelligence.

The company also recently announced plans to acquire US grocer Whole Foods, which could help Amazon expand in that sector.

Bezos noted recent company moves including launching a new version of home digital assistant Echo; upgrading Alexa artificial intelligence, expanding its streaming video offerings outside the US, and even adding to the company's air cargo fleet.

Amazon shares slipped some three percent to \$1,012.15 in after-market trades that followed the release of the earnings figures that fell short of Wall Street expectations.

Wealth crown

The report comes as Bezos briefly dethroned Microsoft founder Bill

Gates as the world's richest person, according to an estimate by Forbes magazine.

An early jump in Amazon shares gave Bezos a net worth of \$90.5 billion, half a billion ahead of Gates, but by the end of the trading day Bezos was back in the number two spot.

Amazon's recent online bargain event called Prime Day was touted as the "biggest global shopping event ever" for the company with record sales of its Echo, Fire tablet, and Kindle devices.

The company boasted that its video division recently received 16 Emmy nominations for original shows including "Man in the High Castle" and premiered a slate of new offerings.

Revenue from its Amazon Web Services (AWS) that hosts computing power and storage in the internet cloud rose to \$4.1 billion from \$2.9 billion in the same quarter last year.

AWS operating expenses climbed from \$2.7 billion to \$3.2 billion, but the division still saw operating income increase to \$916 million from \$718 million.

Staying the course

Amazon forecast a similar state of affairs for its financial performance this quarter, with net sales expected to grow 20 percent to 28 percent compared with the same period last year but operating income coming in lower.

"As good as Amazon is at generating sales, it is far less successful in turning those sales into profits," GlobalData Retail managing director Neil Saunders said in a note commenting on the earnings.

"To be fair, much of this is deliberate: Amazon chooses to reinvest in its business and to sacrifice profits to boost its market share and dominance."

Spending on distribution centers, video content, and data center capacity were significantly stepped up in the quarter, chief financial officer Brian Olsavsky said during an earnings call.

As the number of people subscribing to Prime rises, so does the need to be able to deliver purchases to them quickly as promised by the service.

Amazon also saw a jump in headcount, with the number of employees up 42 percent from this time last year, according to Olsavsky.

Hiring has focused a lot on software engineers and sales talent, he said.

Amazon is "excited" about the pending acquisition of Whole Foods, which wouldn't be factored into earnings results until after the \$13.7 billion, all-cash deal closed.

Amazon is once again shaking up the retail sector, with the announcement in June that it will acquire upscale US grocer.

The purchase in one fell swoop gives Amazon, which until now has operated almost entirely on the internet, a big presence in the brick-and-mortar world on Main Street, with more than 450 stores in the US, Canada and Britain.

"We are very glad to join up with them," Olsavsky said.

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