

Amazon delivers record profits on gains in cloud, advertising

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Despite slowing growth in online retail sales, Amazon posted its best-ever profit in the first quarter thanks to hefty gains in cloud computing and subscriptions

Amazon on Thursday delivered record profits for the first quarter, fueled by gains in cloud computing and new business segments for the

US technology colossus.

Net profit in the quarter more than doubled from the same period last year to \$3.6 billion, extending Amazon's trend of rising profitability.

Overall revenues for the company rose 17 percent to \$59.7 billion, according to the update, which topped most analyst forecasts.

Seattle-based Amazon said revenue from online sales was up 10 percent billion while money taken in from subscription services and the Amazon Web Services cloud platform leapt some 40 percent.

The "other" revenue segment, which includes online advertising, grew some 34 percent from a year ago.

Shares in Amazon—which has expanded from its origins in e-commerce to cloud services, streaming media, artificial intelligence and brick-and-mortar grocery stores—wobbled in after-market trades, dipping briefly before returning to a modest gain of 0.6 percent.

Expanding digital advertising

Analysts pointed out that Amazon is increasing its digital advertising revenues, a market dominated by tech rivals Google and Facebook.

"Amazon just turned in another powerhouse quarter fueled by its strength in the cloud and advertising businesses, which continues to inflate the company's operating margins," said Andrew Lipsman of the research firm eMarketer.

"While AWS's momentum continues unabated and is clearly the bigger driver of this profit story at the moment, the advertising flywheel now appears to be in full effect for Amazon and will only be a bigger part of

the growth story over the near term."

Neil Saunders of the research firm GlobalData Retail, said Amazon's growth in product sales is slowing, a trend to be expected given its massive size and competition from other retailers.



Amazon, whose CEO Jeff Bezos is seen here, posted record profits as it diversified into new areas such as digital advertising and groceries

"In our view the trend is only likely to accelerate going forward and it will put Amazon under more competitive pressure than it has been before," Saunders said in a research note.

"In a perverse way this is advantageous to Amazon as it puts an end to the lie that the company is somehow a monopoly or that it is immune from competitive forces."

But Amazon's diversified business gives it more opportunities to deal with competition, the analyst noted.

It has begun investing more in its recently acquired Whole Foods grocery stores and expanding the home delivery areas for the chain.

"As much as the top-line performance matters, Amazon's shallower growth is coinciding with a period of improving profits," Saunders said.

Speedier deliveries

A free two-day shipping benefit offered to Amazon Prime subscribers is evolving into a one-day shipping perk that the company expects to boost shopping and membership, executives said on an earnings call.

Amazon figured to spend \$800 million this quarter on shortening delivery times to a single day for Prime buyers, with shoppers in North America expected to be the first to benefit.

Amazon's Prime Video has also been in tough competition on streaming television with Netflix and new entrants, and its Alexa-powered devices are seeing more rivals from other firms using digital assistants with artificial intelligence.

Amazon executives said the company will continue to invest "meaningfully" in original shows and films for its Prime streaming television service.

Colin Sebastian of Baird Equity Research welcomed "a good report

given some concerns over online spending headwinds," and said he sees "no change to our positive long-term thesis" for Amazon.

Sebastian calls for more gains in Amazon shares, reflecting "our increased conviction in emerging business segments."

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