

Amazon Posts Lower 4Q Net Income but Stock Jumps

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NEW YORK (AP) — Amazon's fourth-quarter net income fell 45 percent, as sharply higher revenue failed to keep pace with increased spending on order fulfillment and digital content, a trend that's become the norm for the world's largest online retailer.

The company's financial results missed Wall Street's expectations — but investors sent the world's top online retailer's stock up more than 9 percent in after-hours trading.

"It boggles the mind," said BGC Financial analyst Colin Gillis, who attributed the stock price jump to slightly stronger-than-expected operating income. "A lot of people scratch their head at the valuation given to Amazon and the support the stock has."

The company says it has been investing a lot of its income into enhancing its distribution network, its shopping website and its Kindle business as part of a long term growth plan. It opened 20 order fulfillment centers in 2012, bringing the total to 89 worldwide.

Amazon's profit margins have been thin because of heavy investments —and the deep discounts the company offers consumers. Even so, investors continue to be more than forgiving. Its stock price gained 45 percent in 2012. It has risen another 4 percent so far this year.

Amazon.com Inc. said Tuesday that it earned \$97 million, or 21 cents per share, in the October-December period. That's down from \$177 million, or 38 cents per share, in the same period a year earlier.

Revenue for the crucial holiday quarter grew 22 percent to \$21.27 billion from \$17.43 billion.

Analysts had expected earnings of 28 cents per share on revenue of \$22.26 billion, according to a poll by FactSet.

"We're now seeing the transition we've been expecting," said Jeff Bezos, founder and CEO, in a statement. "After five years, eBooks is a multi-billion dollar category

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for us and growing fast — up approximately 70 percent last year."

In contrast, he added, sales of paper books saw the lowest December growth rate in the company's 17 years as a book seller — up just 5 percent.

Though revenue fell short of expectations, Cantor Fitzgerald analyst Youssef Squali said Amazon's profit margin was much better than expected at 24.1 percent compared with 20.7 percent a year earlier. This could signal that Amazon is starting to reap some benefits from its investments.

Amazon's operating income jumped 56 percent to \$405 million from \$260 million in the fourth quarter of 2011. That's much better than the company's guidance, which was for an operating loss of \$490 million to an operating income of \$310 million.

For the current quarter, Amazon expects revenue of \$15 billion to \$16.6 billion. Analysts had expected revenue of \$16.86 billion.

For all of 2012, the company booked a net loss of \$39 million, or 9 cents per share, down from a profit of \$631 million, or \$1.37 per share. The shortfall was due to a 60 cent per share loss in the third quarter of the year, which resulted from a charge related to its stake in online deals site LivingSocial. The company said it was also due to heavy spending on its Kindle business, new geographic locations and video content. It also said it hired about 50,000 temporary workers at its distribution centers across the U.S. during the holiday season.

Revenue in 2012 grew 27 percent to \$61.09 billion from \$48.08 billion, slightly below analysts' expectations of \$62.1 billion.

Few large corporations are able to grow revenue at such a pace year after year. Apple Inc., the world's most valuable public company, is a notable example. The iPad maker increased revenue by 29 percent in 2012, to \$165 billion. Still, investors punished Apple's stock after it reported earnings last week, due to signs that the company's profit margin is shrinking and its iPhone faces stiffer competition in overseas markets.

Seattle-based Amazon's shares rose \$24, or 9.2 percent, to \$284.35 in after-hours trading. The stock had closed down \$15.69, or 5.7 percent, at \$260.35.

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