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TECH

## Amazon's Streak of Record Profit Ends

Shipping costs and a steeper loss in its overseas retail business weigh on earnings



An employee packs a box at an Amazon fulfillment center in Italy. The online retailer's quarterly profit rose 3.6% from a year ago.  
PHOTO: GIULIO NAPOLITANO/BLOOMBERG NEWS

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Amazon.com Inc. [AMZN -1.35% ▼](#)'s record quarterly profit streak has ended, as the online retailer faced higher shipping costs, slowing growth from its cloud-computing business and a steeper loss in its overseas retail business.

The company's second-quarter profit rose 3.6% from a year ago to \$2.63 billion after more than doubling last quarter. It missed analysts' consensus estimate. Amazon had posted its best-ever profit the previous four quarters.

Amazon's profitability was hit in particular by surging shipping costs. The company spent heavily on making one-day shipping the standard for its Prime members. "It does create a shock

to the system,” said Chief Financial Officer Brian Olsavsky in a call with analysts. “We expect we’ll be working through that for a number of quarters, but when the dust settles, we will regain our cost efficiency over time.”

On a positive note, Amazon’s sales growth reignited in the quarter after shrinking over the past four periods. Revenue rose 20% to \$63.4 billion—better than analyst estimates—compared with a 17% increase three months earlier.

The results sent Amazon’s shares down 2.7% in after-hours trading on Thursday to \$1,921 a share. Before the late-afternoon report, the stock was up 30% this year, giving the company a market value of around \$981 billion.

Amazon over the past few years has revealed few financial trouble spots and has rewarded investors with a market value hovering around a once unthinkable \$1 trillion. It has dominated e-commerce, sprouted a hugely profitable cloud-computing business and spread its arms into new industries such as groceries, entertainment and advertising.

The outsize success has also made it a political target. The company is now among a group of giant technology companies that face mounting regulatory scrutiny about their market power.

Silicon Valley continues to hum along despite the threats. Facebook Inc. on Wednesday posted 28% revenue growth and a big profit in a quarter where it paid a record-setting privacy fine of \$5 billion. Alphabet Inc.’s Google reported strong earnings Thursday, while Microsoft Corp., the world’s most valuable listed company, last week posted record quarterly revenue and profit. Amazon has largely remained resilient though its results are showing some vulnerability unrelated to regulation.

Amazon Web Services, which is a big profit driver for the company, delivered \$8.4 billion in sales though year-over-year growth slowed to 37% after topping 40% in previous quarters. Operating income of the cloud-computing business, which rents computing power to companies and the government, rose 29% to \$2.1 billion.

While Amazon essentially created the cloud-computing category, the company faces stiffer competition from rivals playing catch-up. Earlier this month, Microsoft’s earnings were boosted by a 39% increase in sales in its cloud-computing business. Revenue from its Azure cloud service alone rose 64%.

“On a dollar basis, we’re growing faster than anyone,” Mr. Olsavsky said in a call with media in response to AWS’s slowing growth in the quarter.

Amazon has also encountered problems overseas, including in India, where new e-commerce rules favor domestic companies over foreign giants like Amazon. Its international sales rose 12%, compared with 9% in the first quarter, though the unit’s loss widened to \$601 million from a year earlier.

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The company's world-wide shipping costs jumped 36%—after hovering around 20% in recent quarters—as Amazon began building out the free one-day shipping capability for millions of products. Speedier shipping helps

Amazon cater to evermore demanding customers and gives it an edge over its retail rivals, but it is costly.

Mr. Olsavsky said Amazon spent more than the estimated \$800 million on building out next-day shipping, citing higher costs in transitioning warehouses and in moving inventory closer to customers.

Amazon's financial chief said the company is seeing the benefits of making shipping faster. "It strengthens your purchase decision and strengthens the need to not have to go elsewhere to buy a product," he said on the analyst call, adding that the company experienced a "meaningful step-up" in one-day shipments in the quarter.

In addition to costs related to facilitating one-day shipping, the company expects to spend more during the rest of the year on marketing, international expansion of Prime benefits and investments in devices and video. Amazon projects its operating income in the third quarter to fall to between \$2.1 billion and \$3.1 billion, from \$3.7 billion a year ago and compared with analysts' average estimate of \$4.4 billion. Asked whether Amazon's guidance takes into account any potential penalties or impact from regulation, Mr. Olsavsky said on the media call that it doesn't. He declined to comment on regulatory matters.

Amazon faces a European Union antitrust investigation into its treatment of merchants that sell goods on its site. The company said it would cooperate with officials. And on Tuesday, the Justice Department said it is opening a broad antitrust review into whether dominant technology companies including Amazon are unlawfully stifling competition. The company has had to fend off criticism from some legislators including Sen. Elizabeth Warren (D., Mass.) that the company has too much concentrated power and should be broken up. And the company is a favorite punching bag of President Donald Trump, who has slammed Amazon over the taxes it pays and its effect on retailers.

In response to complaints that Amazon is abusing its market power, the company has pointed to its single-digit percentage share of the overall world-wide retail market, and the fact that the majority of sales on its site come from third-party merchants. Critics point out its dominance in e-commerce, where it collects about 38% of all U.S. retail dollars spent online, according to eMarketer.

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*What are your views on Amazon's growth potential over the next several quarters? Join the conversation below.*

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