Amazon CEO Bezos Faces Season of Worsts as Losses Mount

By Spencer Soper - Oct 24, 2014

For Amazon.com Inc. (AMZN) Chief Executive Officer Jeff Bezos, it’s turning into a season of worsts.

As Amazon heads into the lucrative end-of-year shopping period, the company yesterday posted its biggest quarterly net loss since at least 2003, according to data compiled by Bloomberg. It also forecast sales and profit for the fourth quarter that missed analysts’ projections. That puts Amazon on track to lose an estimated $40.5 million for the year, which would be the company’s largest annual loss in 12 years, according to data compiled by Bloomberg. The only other annual loss for Amazon during that period came in 2012.

In response, investors pushed Amazon shares down as much as 9.3 percent, the biggest intraday drop since July. For the year, the stock is down 21 percent through yesterday, compared with a 5.5 percent gain in the Standard & Poor’s 500 Index. If that performance continues, the company is set for its worst annual stock decline since 2008, during the depths of the financial crisis.

The results illustrate the growing lack of support for Bezos’s methods of spending big and counting on sales growth to make up for minuscule profit. Bezos has poured money into everything from smartphones to original television programming to drones, keeping margins razor thin. In contrast, Chinese company Alibaba Group Holding Ltd. (BABA), which overtook Amazon as the world’s largest e-commerce company last month based on market capitalization, makes healthy profits.

“The biggest component is the expense side of the equation,” said Scott Tilghman, an analyst at B. Riley & Co. in Los Angeles. “They’ve got a big checkbook they keep writing upon, which all results in a top line that is less robust than thought.”

Familiar Message

Amazon fell 7.1 percent to $290.90 at 9:36 a.m. in New York, after dropping as low as $284.

On a conference call yesterday, Chief Financial Officer Thomas Szkutak gave a familiar refrain of investing in growth. Spending on original programming is creating better retention of members of the $99 Amazon Prime fast-shipping program, he said. In response to questions about spending, he gave no indication of a pullback.
“We have been in investment mode because of the opportunities we have in front of us,” Szukutak said. “There’s still lots of opportunities in front of us, but we know we have to be cautious about which opportunities we pursue.”

The company yesterday projected fourth-quarter sales of $27.3 billion to $30.3 billion, and income excluding some items ranging from a loss of $570 million to a gain of $430 million. That fell short of analysts’ estimates of sales of $30.9 billion and profit of $460.5 million, according to data compiled by Bloomberg.

**Holiday Ho-Hum**

Amazon trimmed back its holiday sales projection because of exchange rates associated with the strong U.S. dollar, as well as stock-based compensation costs, Szukutak said. The forecast included about $470 million in stock-based compensation as Amazon increased its workforce to 149,500 at the end of September, up 36 percent from 109,800 a year earlier.

The projection “shakes the confidence of investors who paid more than $300, since they expect Amazon to be profitable in the holiday quarter,” said Michael Pachter, an analyst at Wedbush Securities in Los Angeles.

For the third quarter, Amazon posted a net loss of $437 million, more than 10 times wider than the $41 million loss from a year ago. Sales rose 20 percent to $20.6 billion. Analysts had projected a loss of $331.4 million on sales of $20.9 billion.

The results included a $170 million inventory charge, largely attributable to the Fire smartphone, which Amazon began shipping in July in a crowded market versus rivals including Apple Inc. and Samsung Electronics Co. International sales were also hampered by a new online sales tax in Japan, the company said.

**Big Spender**

Amazon’s rate of spending over the quarter exceeded its sales growth. The company poured $21.1 billion into operations in the period, up 23 percent from a year earlier.

The company is spending earlier in the year to build its delivery network to prepare for the holidays, so those costs are showing up earlier as well, Szukutak said.

The fourth quarter is typically Amazon’s most lucrative, given an influx of shoppers who buy gifts for the holidays. Amazon is ramping up to be ready, saying earlier this month that it plans to hire 80,000 seasonal workers in the U.S. to help process orders, up from 70,000 last year. In the U.K., Amazon has said it will hire 13,000 workers for seasonal roles this year.

Meanwhile, the payoff from all the spending continues to be a distant prospect. The Fire phone, which debuted at a price of $199, was slashed to 99 cents weeks after it began shipping.
“Whenever you launch something new, there’s a wide range of outcomes,” Szkutak said. “It’s also early. We just launched the phone 90 days ago in the U.S. and just started shipping in Europe.”

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