

Amazon.com's Accounting Pornography

I wrote the following analysis on Amazon.com's GAAP accounting manipulation for Seeking Alpha...

Amazon.com (AMZN) released its earnings on Thursday, February 1st after the market closed. The headline net income number was \$ 3.85/share. This blew away Wall Street's estimate of \$ 1.85/share, which is a bit peculiar since the traditional "beat the Street" earnings game is accomplished by guiding Wall Street analysts to an earnings consensus that is slightly below the posted result.

The revenue growth rate was truly impressive. For Q4 2018 vs. 2017, revenues jumped 38.2%. For the full year, revenues grew 30.8%. However, without question AMZN's free 2-day shipping associated with its Prime membership is the driving force behind sales growth. But at what cost? The table below shows AMZN's revenue growth rate plus cost and operating margins from 2005 – 2017. The data is from AMZN's 10-k filings.

AMZN Full-Year Operating Results - 2005 to 2017													
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	8,490	10,711	14,835	19,166	24,509	34,204	48,077	61,093	74,452	88,988	107,006	135,987	177,866
Growth Rate		26.16%	38.50%	29.19%	27.88%	39.56%	40.56%	27.07%	21.87%	19.52%	20.25%	27.08%	30.80%
Cost of Sales	6,451	8,255	11,482	14,896	18,978	26,581	37,288	45,971	54,181	62,752	71,651	88,265	111,934
AMZN-Reported Gross Margin	24.02%	22.93%	22.60%	22.28%	22.57%	22.35%	22.44%	24.75%	27.23%	29.48%	33.04%	35.09%	37.07%
Fulfillment Costs	745	937	1,292	1,658	2,052	2,898	4,576	6,419	8,585	10,766	13,420	17,619	25,249
% of Revenues		11.35%	11.26%	11.13%	10.81%	10.91%	12.27%	13.96%	16.85%	17.16%	18.73%	19.96%	22.56%
COGS + Fulfillment	7,196	9,192	12,774	16,554	21,030	29,459	41,864	52,390	62,766	73,518	85,071	105,884	137,183
True Gross Margin	15.24%	14.18%	13.89%	13.63%	14.19%	13.87%	12.92%	14.25%	16.70%	17.38%	20.50%	22.14%	22.87%
Operating Income	432	389	655	842	1,129	1,406	862	676	745	178	2,233	4,186	4,106
Op Inc Margin	5.09%	3.63%	4.42%	4.39%	4.61%	4.11%	1.79%	1.11%	1.00%	0.20%	2.09%	3.08%	2.31%

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Cost of fulfillment is the cost of de-stocking an item and getting it to the customer's doorstep. The fourth line item above shows fulfillment costs over time. As you can see, the cost of fulfillment as a percentage of revenues has doubled

since 2006. For every dollar of revenue, AMZN spends nearly 23 cents getting inventory delivered to end-users.

You can read the rest of this article here: [Amazon's Deceptive Accounting Games](#)

I also publish the Short Seller's Journal, which is a weekly newsletter that provides insight on the latest economic data and provides short-sell ideas, including strategies for using options. You can learn more about this newsletter here: [Short Seller's Journal information.](#)

I've been subscribed for a number of months now and really appreciate your newsletter. It has been quite profitable. In fact I had bought the \$ 15 August puts BZH, Bought at \$ 0.70 – yesterday \$ 1.82 – 160%. Other recommendations have also paid off well. Thanks again for your hard work. – subscriber feedback

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