Week in Review Amazon

Week in Review, July 28

Amazon results; Qualcomm, UBS, Ryanair and GSK also in the news



JULY 27, 2018

A round up of some of the week's most significant corporate events and news stories.

Amazon's quarterly profits reach a record $2.5bn

It took Amazon 20 years as a public company to reach $1bn in quarterly profit. It took six months to double that, *writes Shannon Bond in New York*.



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On Thursday, the Seattle company reported a record $2.5bn in second-quarter net income, up

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Earnings of $5.07 a share blew past Wall Street's estimate of $2.51. Its top line fell short, however: 39 per cent sales growth to $52.9bn undershot analysts' consensus estimate by $500m.

Amazon was famously unprofitable for years as it ploughed fast-growing revenue into investments from warehouses to electronic devices to servers for its network of data centres.

That turned it into the dominant force in online shopping — capturing one in every two dollars spent on ecommerce in the US — and cloud computing, where its customers include Netflix, Ryanair and the CIA.

This time, the picture flipped for investors accustomed to meagre margins and outsized sales growth.

Amazon's second-quarter operating margin of 5.6 per cent eclipsed analysts' forecasts of 3.2 per cent and was the highest in more than a decade.

Shareholders cheered the news. After sending the stock down 3 per cent as part of Thursday's Facebook-fuelled tech pullback, investors reversed those losses in after-hours trading.

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Amazon expects a similar pattern for the third quarter. It forecast operating income between $1.4bn and $2.4bn on net sales of $54bn to $57.5bn, compared with Wall Street's estimate of $1.3bn and $58bn, respectively.

The company credited its strengthening profitability to its diversification into high-margin businesses, as well as efficiencies from recent investments and a more restrained rate of hiring and capital expenditures this year.

The cloud division, Amazon Web Services, has been a particular boon. Its fat operating margin — 27 per cent in the quarter — has provided a welcome cushion to the low-margin retail business that still makes up most of Amazon's revenue.

US tension with China kills Qualcomm's NXP bid

Growing political strife between the US and China has now scuppered two of the tech industry's biggest-ever deals, with Qualcomm forced this week to walk away from its planned $44bn buyout of NXP, *writes Tim Bradshaw in Los Angeles*.

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Almost two years after the two chipmakers' tie-up was announced, Chinese antitrust authorities failed to deliver the approvals before the deal's deadline expired on Wednesday night.

Steve Mollenkopf, Qualcomm chief executive, blamed the "current geopolitical environment" for delaying Beijing's sign-off, even though eight other regulators around the world approved the deal.

Chinese officials have publicly denied that escalating tensions over trade with the US affected the decision. However, people briefed on Qualcomm's negotiations said that Beijing had retaliated for US President Donald Trump's abrupt turnround on tariffs, embarrassing Chinese vice-premier Liu He after a recent stateside visit.

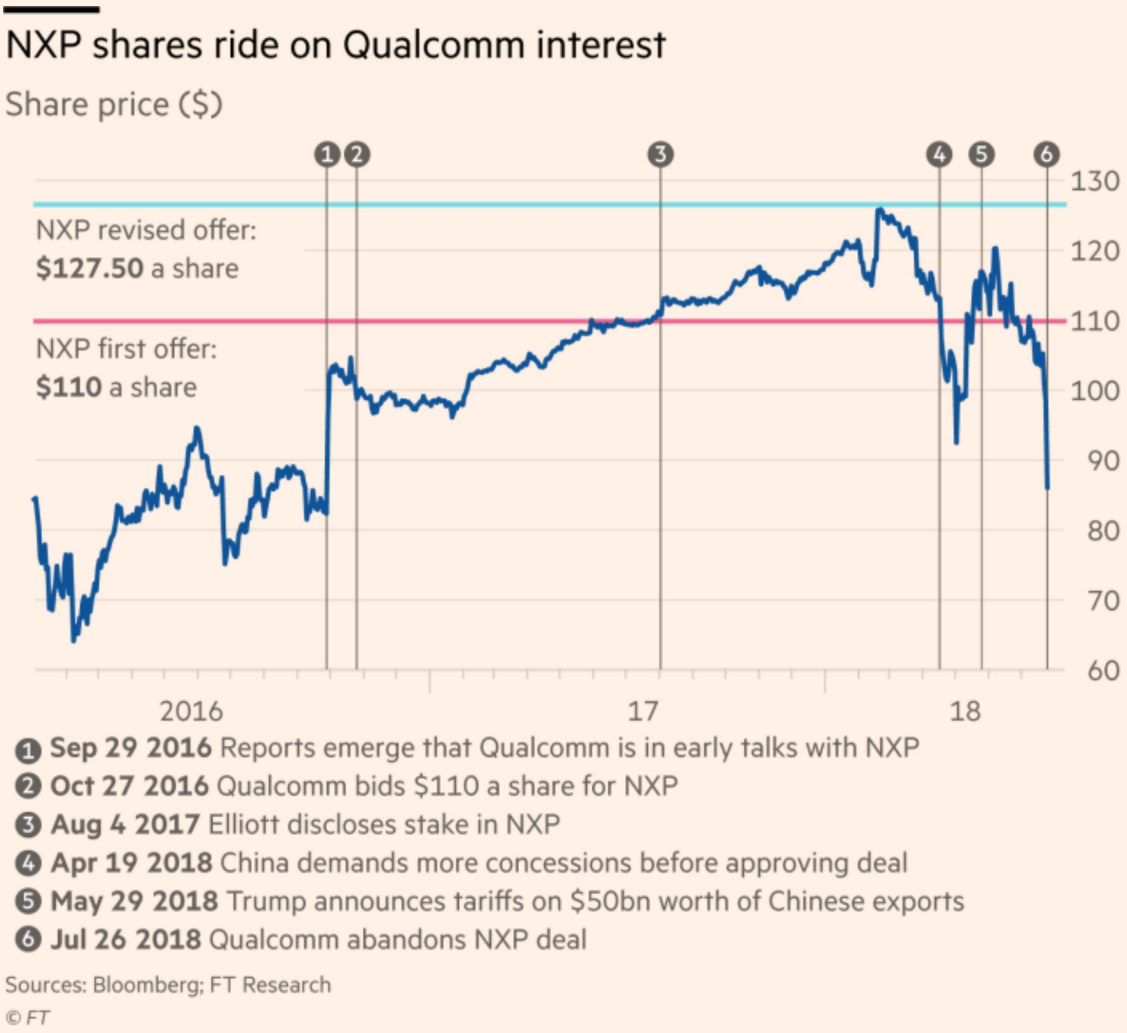
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Qualcomm's defeat comes months after it was saved by Mr Trump from a hostile takeover bid by rival Broadcom. The White House blocked Broadcom's $142bn offer, fearing the deal could allow China to overtake the US in the race to develop 5G wireless technology.

The moves are expected to dampen cross-border tie-ups, especially in the rapidly consolidating semiconductor industry.

Rick Clemmer, NXP chief executive, told the Financial Times that the Dutch chipmaker's management team was left "fatigued and tired" by the prolonged regulatory scrutiny.

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UBS beats expectations but warns on trade war impact

UBS this week reported a stronger than expected 12 per cent rise in pre-tax profits in the second quarter, lifted by its investment bank, *writes Ralph Atkins in Zurich*.

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© EPA

But the Swiss bank's core wealth management operations experienced net money outflows, and it warned global trade and geopolitical tensions were eroding investor confidence.

For the second consecutive quarter, investment bank operations outshone the Swiss lender's wealth management arm, despite the investment bank's supposed subsidiary status.

Overall, pre-tax profits reached SFr1.68bn ($1.68bn) in the three months to June, up from SFr1.5bn the same period a year ago. At the investment bank, reported pre-tax profits of SFr569m were up on SFr451m a year earlier.

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The global wealth management unit, however, only narrowly beat analysts' expectations, with reported pre-tax profits of SFr1.04bn, up from SFr879m. The second quarter saw net new money outflows of SFr1.2bn.

While global economic growth would support financial markets, UBS said geopolitical tensions and rising protectionism had "damped investor confidence and remain a threat".

But analysts were cheered by UBS managers' confidence of reaching targets, including for new net money inflows, as well as hints by chief Sergio Ermotti about further share buybacks.

Separately, Deutsche Bank detailed its second quarter performance, after pre-releasing better than expected numbers a week earlier showing it had delivered half of its full-year job cuts target.

Ryanair boss blames strikes for sharp drop in profit

Ryanair's week started badly, with a 22 per cent fall in pre-tax profit in its first quarter. And it got worse, *writes Josh Spero in London.*

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Stranded Ryanair passengers in Valencia scramble for alternative travel arrangements © Reuters

Announcing the results, chief executive Michael O'Leary blamed strikes by his staff and Europe's air traffic controllers for the drop, and warned of cuts to the airline's winter schedule if strikes continued.

Ryanair's Irish pilots went on strike on Wednesday and cabin crews in Spain, Portugal and Belgium on Thursday and Friday.

Ryanair said there was "very minimal disruption".

The employees were striking over pay and conditions, and wanted contracts governed by local, not Irish, law.

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The airline, also on Wednesday, followed through on its warning about winter cuts as it announced it intended to move six of its 30 aircraft from Ireland to Poland, potentially making redundant or reassigning more than 100 Dublin-based pilots and 200 cabin crew.

The pilots' union reacted by scheduling another strike.

Daniel Roeska, an analyst at Bernstein, said: "Antagonising the workforce in the context of labour disputes is a very risky strategy, and will likely lead to greater union membership and higher strike participation, effectively increasing a union's bargaining power."

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Ryanair employees hold up signs in the Mallorca, Spain airport on Wednesday while on strike © Reuters

Ryanair — with Wizz Air, easyJet and IAG, the BA owner — filed a complaint with the European Commission, saying France's failure to stop air traffic controller strikes was a breach of freedom of movement.

Ryanair alone had to cancel 2,500 flights in the first quarter.

GSK injects $300m into California gene test group

GSK is falling into the scientific embrace of Silicon Valley, *writes Clive Cookson in London.*



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Alongside Wednesday's second-quarter results, which ran well ahead of market expectations, the UK pharma group announced a $300m investment and four-year drug discovery collaboration with 23andMe, the California gene testing group.

The 23andMe deal follows GSK's recruitment of Hal Barron as chief scientist. He is based in San Francisco, where he has worked for almost 30 years, establishing himself as a leader in biotech

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research with Genentech and then Calico, one of the Alphabet stable of start-ups that focuses on life-extending medicine.

23and Me will provide GSK with a database of more than 4m people who have agreed that their genetic analysis can be used for research after "de-identification" to protect privacy.

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Links between their genes and disease will help discover new drugs, and 23andMe customers are a potential source of clinical trial participants.

GSK mentioned a gene called LRRK2, implicated in Parkinson's disease, on which its scientists will work with 23andMe.

Although 23andMe has made peace with regulators after a run-in with the US Food and Drug Administration over its marketing, there is still scope for controversy.

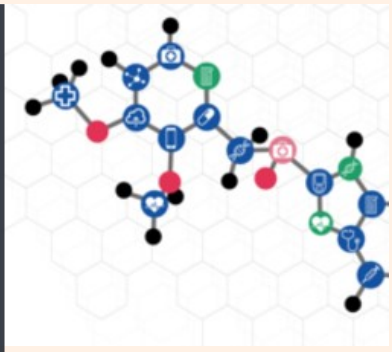
For example, there have been claims that people who have paid for DNA tests should receive some money back if the pharmaceutical industry develops blockbuster drugs on the basis of their data.

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