Pro forma results

Amazon letters: 2000, 2001 · Difficulty: Intro

Summary

In 2000–2001 Amazon featured **pro forma** results, which left out items such as stock-based compensation, goodwill amortization and restructuring charges. Pro forma (non-GAAP) numbers are not defined by GAAP, so the company chooses what to leave out; readers should always compare them with the GAAP figures.

2000 letter

As of this writing, our shares are down more than 80% from when I wrote you last year. Nevertheless, by almost any measure, Amazon.com the company is in a stronger position now than at any time in its past. • We served 20 million customers in 2000, up from 14 million in 1999. • Sales grew to $2.76 billion in 2000 from $1.64 billion in 1999. • Pro forma operating loss shrank to 6% of sales in Q4 2000, from 26% of sales in Q4 1999. • Pro forma operating loss in the U.S. shrank to 2% of sales in Q4 2000, from 24% of sales in Q4 1999. • Average spend per customer in 2000 was $134, up 19%. • Gross profit grew to $656 million in 2000, from $291 million in 1999, up 125%. • Almost 36% of Q4 2000 U.S. customers purchased from one of our ‘‘non-BMV’’ stores such as electronics, tools, and kitchen. • International sales grew to $381 million in 2000, from $168 million in 1999. • We helped our partner Toysrus.com sell more than $125 million of toys and video games in Q4 2000. • We ended 2000 with cash and marketable securities of $1.1 billion, up from $706 million at the end of 1999, thanks to our early 2000 euroconvert financing. • And, most importantly, our heads-down focus on the customer was reflected in a score of 84 on the American Customer Satisfaction Index. We are told this is the highest score ever recorded for a service company in any industry.

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Like 2000, this year will be a year of focus and execution. As a first step, we’ve set the goal of achieving a pro forma operating profit in the fourth quarter. While we have a tremendous amount of work to do and there can be no guarantees, we have a plan to get there, it’s our top priority, and every person in this company is committed to helping with that goal.

2001 letter

Please expect us to repeat this loop. As I mentioned, we exceeded our goals for the fourth quarter with pro forma operating profit of $59 million and pro forma net profit of $35 million. Thousands of Amazon.com employees around the world worked hard to achieve that goal; they are, and should be, proud of the accomplishment. More highlights from a notable year: • Sales grew 13% from $2.76 billion in 2000 to $3.12 billion in 2001; we achieved our first billion-dollar quarter on reaccelerated sales and 23% year-over-year unit growth in Q4. • We served 25 million customer accounts in 2001, compared to 20 million in 2000 and 14 million in 1999. • International sales grew 74% in 2001, and more than one-quarter of sales came from outside the U.S.

The U.K. and Germany, our largest international markets, had a combined pro forma operating profit for the first time in Q4. Open only a year, Japan grew to a $100 million annual run rate in Q4. • Hundreds of thousands of small businesses and individuals made money by selling new and used products to our customers directly from our highly trafficked product detail pages.

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As we said in January when we reported our fourth quarter results, we plan this year to generate positive operating cash flow, leading to free cash flow (the difference between the two is up to $75 million of planned capital expenditures). Our trailing twelve-month pro forma net income should, roughly but not perfectly, trend like trailing twelve-month cash flow. Limiting share count means more cash flow per share and more long-term value for owners.

Source: Jeffrey P. Bezos, Letters to Amazon.com Shareholders: 2000, 2001 (ir.aboutamazon.com). Excerpts © Amazon.com, Inc., all rights reserved; reproduced in part for non-commercial teaching. "…" marks skipped text. The summary is original course material by Jaeyoon Yu; not affiliated with or endorsed by Amazon.com, Inc.