

Amazon.com, Inc. (AMZN)

September 18, 2023

Consumer Discretionary – Online Retail

Stock Rating

SELL

Investment Thesis

Amazon.com, Inc is one of the world's most well-known companies and has transformed into a leader in cloud services, online retail, and brick-and-mortar retail. Although AMZN has greatly transformed and has become a tech behemoth, we are recommending a sell with a target price of \$140-149, representing an upside of 1-8%.

Drivers of Thesis

- Amazon derives about 68% of revenues from the United States and 10% from Germany. Both economies are teetering on the brink of recession and a weakening consumer. If world economies struggle, AMZN revenue growth will take a hit.
- A legal battle with the Federal Trade Commission could force Amazon to break up and operate as a different company. If this were to happen, there is no telling how the Company would operate.
- Amazon Web Services is AMZN's fastest growing and highest margin segment of business. Although there is great potential, more competition in the space could force Amazon to lower prices, hindering margins and growth.

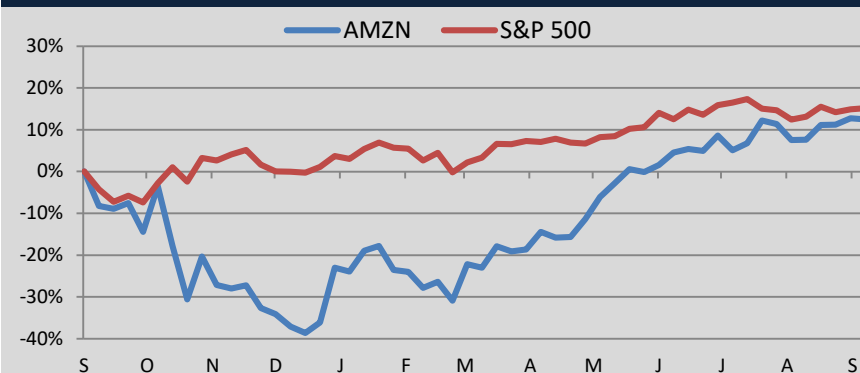
Risks to Thesis

- Amazon can offer consumers great deals on many goods and deliver them to the doorstep in two days or less. Being so consumer centric drives consumers to AMZN.
- Although United States consumer confidence is waning and credit card debt has hit all-time highs, avoiding a recession would likely boost spending. If consumers confidence starts to recover, spending might follow.
- Third-party sellers have become more prominent due to Amazon's massive customer base and fulfillment capabilities. As more of these sellers join the platform, AMZN will likely continue to see higher revenue growth in this segment.

Earnings Estimates

Year	2019	2020	2022	2023E	2024E	2025E
EPS	\$0.47	\$0.30	\$(3.74)	\$2.17	\$3.14	\$4.50
HF est.				\$1.84	\$2.73	\$3.79
Growth	1,000%	-35%	-1,334%	149%	49%	39%

12 Month Performance



Target Price

\$140-149

Henry Fund DCF	\$149
Henry Fund DDM	\$73
Relative Multiple	\$86

Price Data

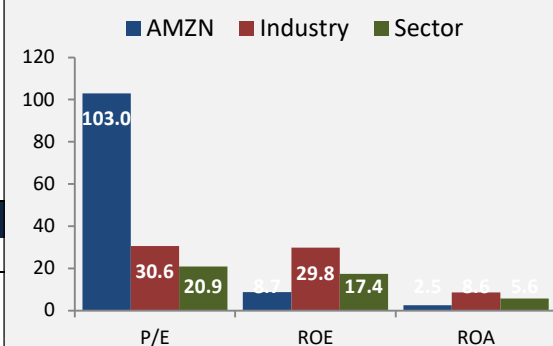
Current Price	\$138
52wk Range	\$81 – 143
Consensus 1yr Target	\$170

Key Statistics

Market Cap (B)	\$1,425
Shares Outstanding (M)	\$1,032
Institutional Ownership	60.5%
Beta	1.25
Dividend Yield	0%
Est. 5yr Growth	78.3%
Price/Earnings (TTM)	115
Price/Earnings (FY1)	43
Price/Sales (TTM)	2.64
Price/Book (mrq)	8.45

Profitability

Operating Margin	3.29%
Profit Margin	2.43%
Return on Assets (TTM)	2.47%
Return on Equity (TTM)	8.71%



Company Description

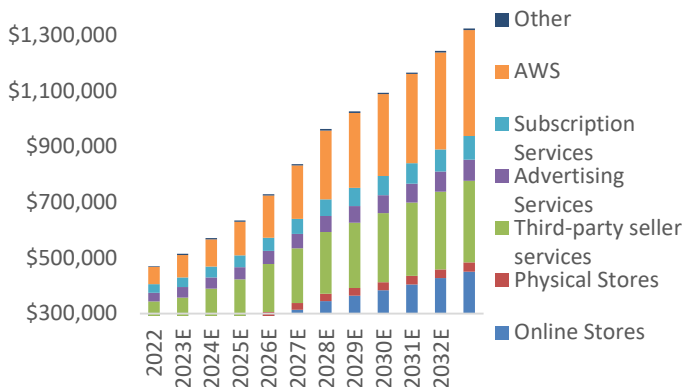
Amazon.com, Inc. is an online retailer, streaming and cloud services provider headquartered in Seattle, Washington. The Company seeks to be "Earth's most consumer-centric company.¹" Over the last 30 years, Amazon has been making strides to become the most consumer-centric company on Earth, and they are succeeding.

COMPANY DESCRIPTION

Amazon.com is one of the world's most well-known names and offers consumers a wide array of services. The most well-known service is the Amazon Prime membership. This membership offers consumers fast and free shipping, special discounts, and access to Prime Video and Prime Music¹. Along with these Prime benefits, Amazon manufactures and sells consumer electronics such as Kindle, Fire TV, and home security devices Ring and Blink. Along with consumer services, the Company also offers various services to sellers, developers, content creators and advertisers.

In 2022, AMZN had revenues of \$514 billion. Online stores led the way by comprising 43% of revenues, 3rd party seller services comprised 23% and the AWS was 16% of total revenues. We expect that AWS will comprise 28.7% of revenues by 2032, taking share from each of revenue categories and being the second largest revenue source.

AMZN Forecasted Revenue

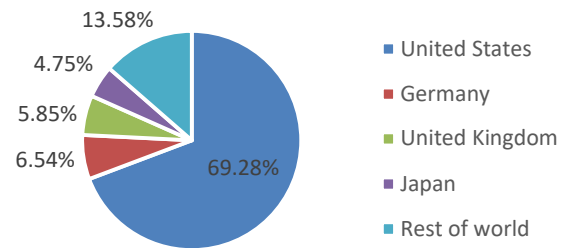


Source: HF Model

Online Stores

In 2022, Amazon derived 42% of revenues from online stores, with third-party seller services and Amazon Web Services (AWS) making up 23% and 16% of revenues, respectively¹. In terms of geography, the United States is by far the largest market, comprising 69% of total revenues. Germany is the next largest single market, making up 7% of revenues. The United Kingdom and Japan are the only other listed markets, making up 6% and 5%, respectively. The rest of the world makes up the remainder¹. This represents a massive growth opportunity for Amazon in countries like India and Africa, although each present challenges.

Geographic Breakdown



Source: 10k

Physical Stores

AMZN operates multiple physical stores such as, Amazon Go, Amazon Fresh, Amazon Style and Whole Foods. Consumers can make returns at each of these stores, adding more convenience for consumers. These stores made up 3.7% of revenue in 2023¹.

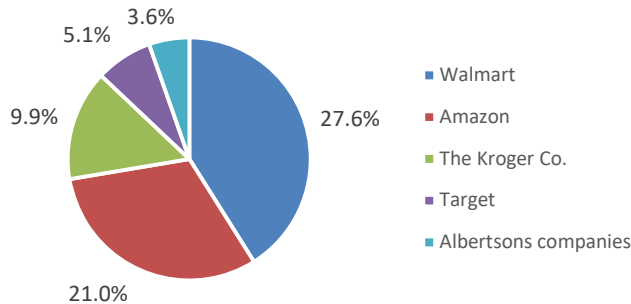
Amazon acquired Whole Foods on August 28, 2017, for \$14 billion. The acquisition included 465 North American stores and 7 International stores. The Company does not break out store count and revenue per store in current financials¹⁴. Establishing a network where Amazon Go and Fresh stores can efficiently collaborate with Whole Foods can be beneficial for each of the stores and cost synergies.

Amazon Go is a unique business model where customers can enter after presenting payment, shop, and walk out. This business model plays to the consumer centric goal of the Company by allowing little interaction with employees and having no checkout lines. The products offered at these stores vary, but primarily consist of breakfast, lunch, and dinner items. Consumers do not have to be Amazon Prime members to take advantage of these stores². These stores are not offered everywhere, however. Currently, there are 22 stores, in four states, Washington, California, Illinois, and New York.

Amazon Fresh operates with a similar model to Amazon Go. The key difference is that these are full grocery stores that also offer delivery. Delivery orders face different fees depending on the dollar value of the order and the timing window. Orders that are under \$150 remain free under Prime, \$100-150 incur a \$3.95 delivery fee, \$50-100 incur a \$6.95 fee and orders under \$50 incur a \$9.95 fee. Currently, there are 44 stores in 9 states. Walmart is still the leader in the e-commerce grocery market with 27.6%⁴

and has the physical infrastructure in place already, making it tougher for Amazon to continue to grow its market share. However, Amazon does have a healthy market share at 21%.

'22 E-commerce Grocery Share



Source: Statista

Amazon Style is a physical store that provides low-cost, stylish clothing, shoes, and accessories for men, women, and children. Consumers can shop trends from top influencer, donate used clothes for a discount, and reserve times to try on different items they have picked out as well as recommended items. These stores offer top brands such as Calvin Klein, Champion, and Steve Madden⁵. There are currently only two stores in operation, Los Angeles, California and Columbus, Ohio. Retail is notoriously competitive, and Amazon will likely have to spend lots of capital opening brick and mortar stores, advertising and protecting against shrinkage to continue to expand these stores. There is likely a reason these stores are not a bigger part of Amazon's growth plan.

Third-party seller services

Third-party seller services include commissions and fulfilment and shipping fees. Amazon does not own the goods sold by third-party sellers but earns a commission on the items and shipping fees. Amazon recently announced they will be adding additional fees to these sellers that do not use Amazon's logistic service⁶. As more sellers continue to use Amazon to reach more customers, this segment of revenue will likely continue to grow. In

2022, third-party seller services made up 23% of revenue¹. We project that by 2027, it will make up 24% of revenue.

Advertising Services

Amazon provides advertising services to sellers, vendors, publishers, authors, and others¹. In 2022, this segment made up 7.3% of total revenues. By 2027, we forecast that it will comprise 6.3% of revenue, or \$58 billion, a CAGR of 8.7%. As corporation's pullback spending due to tougher economic conditions, this slower growth segment will likely grow slower than other segments. If scrutiny continues to grow about how large AMZN is and restrictions are placed, advertising might reach less consumers and limiting demand even more. However, if the Company can grow foreign influence, it could offset United States softness and convince advertisers to reach a broader base.

AWS

Amazon Web Services (AWS) is Amazon's fastest growing segment as well as highest margin segment at 28.5% in 2022¹. In 2022, it was the only reason the Company did not operate at a loss. AWS produced operating income of \$22,841 compared to losses of \$2,847 in North America and \$7,746 internationally¹. In terms of total revenue, AWS produced 16% of total revenue. This is clearly the highest margin segment of AMZN and could arguably be its own company. The large growth in AWS is largely due to an increase in customer usage driven by long-term customer contracts¹.

Other

This segment is not expected to be a large revenue driver in the future. Prior to 2020, advertising services were included in this category. Now, it primarily consists of licensing and distribution of video content and shipping services and co-branded credit card agreements. In 2022, this segment made up less than 1% of total revenue and was insignificant. If legal battles force AMZN to break up, perhaps this segment will be more prominent.

Cost Structure Analysis

Fulfillment Expenses

Fulfillment expense relates to revenues exactly as it sounds, the cost to fulfill goods and services. In 2022, these

expenses were 17% of total costs and 35% of product sales revenue. Amazon greatly increased their number of fulfillment centers over the past few years in the hopes to have more regional focused centers. The goal of expanding regional presences is to streamline fulfillment to consumers, resulting in faster shipping times and higher satisfaction. Fulfillment expenses have been rising as sales have been increasing, leading to AMZN to invest in these centers. We forecast that over time, fulfillment expenses will rise to 36.2% of product sales in 2024, then fall each year, reaching 31% of sales in 2032.

The Company does take on risk by utilizing this strategy, however. AMZN maintains the inventory of other companies, which increases the risk of loss as well as adds to the complexity of data. We believe that the benefits will outweigh the risks due to the cost cutting that will happen.

The reliance on shipping companies is another risk AMZN faces in fulfillment expenses. With UPS' recent massive increase in pay, which will likely lead to higher shipping costs in the future, Amazon might be incentivized to continue investing in their own drivers.

Technology & Content Expenses

In 2022, technology & content expenses made up 15% of total expenses. These expenses primarily relate to infrastructure costs, development & design of stores, and expenses related to AWS. AMZN expects to continue to incur higher costs as spending in AWS continues. Expanding the workforce and geographic presence will also raise these costs. This will likely hinder margins in AWS, especially as more competition comes into play and might force AMZN to lower AWS cost to the customer.

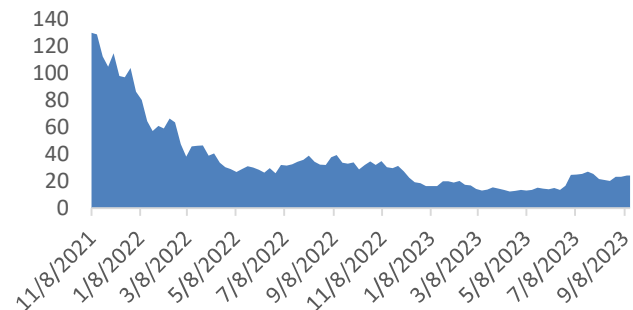
Additional Company Analysis

Rivian

In 2019, Amazon made a \$700 million equity investment in Rivian, an electric car manufacturer²⁰. As of year-end 2022, AMZN held 158 million shares representing 17% ownership¹. The initial goal of the partnership was for Amazon to have exclusive rights to the electric vans that Rivian produced. However, RIVN is seeking to restructure the deal so they can sell to more than just AMZN. Prior to Rivian's 2021 IPO, these shares were preferred stock and got converted to Class A upon the IPO. Due to this massive stake, especially during the electric vehicle (EV) bubble,

Amazon wrote down the value of this equity by \$12.7 billion in 2022. The fair value in 2021 was recorded at \$15.6 billion. To be fair, no one knows it is a bubble until it pops. This investment was interesting, especially considering that AMZN was essentially putting immense amounts of faith in RIVN to be able to produce the desired 100,000 vans by 2030. AMZN does still hold significant voting power, however.

RIVN Stock Price



Source: Yahoo! Finance

Debt Maturity Analysis

Amazon has incurred lots of debt as well as operating leases to fund the expansion of fulfillment centers and physical stores. The Company does not have overly high amounts of debt coming due in the next few years and the effective interest rate is still well below current market rates. AMZN also has a sufficient cash balance to handle the maturities in the event of a downturn. If the Company needs to issue more debt, it will be far more costly than previous issuances due to the large hike in rates. We do not think Amazon will need to issue a large amount of debt due to the expansion that happened during the zero-interest rate environment. AMZN has a Fitch debt rating of AA- with a stable outlook²¹.

Five-Year Debt Maturity Schedule

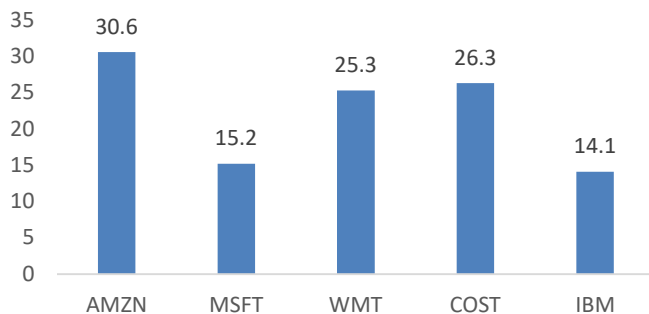
Fiscal Year	Coupon (%)	Payment (\$mil)
2023		\$3,000
2024		8,500
2025		5,249
2026		3,543
2027		8,750
Thereafter		41,500
Total		\$70,542

Source 10k

ESG Analysis

Amazon has an ESG score of 30.6, which is considered high risk¹⁷. The Company has been placing a large emphasis on using reusable packaging and focusing on eliminating waste. Since 2015, the Company has seen a 41% reduction in per-shipment packaging weight on average and 99% of mixed-material mailers replaced with recyclable paper alternatives in the US and Canada. Another way Amazon has been supporting renewable products is by offering programs such as Amazon Second Chance, Amazon Trade-in and donations. In 2022, AMZN donated 82 million meals globally, including 70 million in the United States. One ESG risk that Amazon faces is the pending lawsuit alleging the mistreatment of 3rd party sellers and the potential harm of consumers.

ESG Scores



Source: Sustainalytics

RECENT DEVELOPMENTS

Recent Earnings Announcement

Amazon reported 2nd quarter earnings on August 3, 2023, and reported a massive beat on EPS and revenue. Net sales increased 11% year-over-year, rising to \$134.4 billion, which beat estimates of \$131 billion. North American, international, and AWS saw YoY double digit sales growth of 11%, 10%, and 12%, respectively. AMZN reported positive operating income in North America of \$3.2 billion compared to a loss of \$0.6 billion in 2022. Losses in International markets also improved, reporting a loss of \$0.9 billion as compared to \$1.8 billion a earlier. Although North America and International markets reported higher profitability, the highest growth segment of AWS saw a decrease in operating income of \$0.3 billion. The Company

was expected to report EPS of \$0.35, but they blew this away by reporting \$0.65¹¹.

Although this was a strong quarter for the company, there are macro headwinds. The German economy, Amazon's second largest international segment is experiencing a sharp economic slowdown, as is the United Kingdom. Japan has an aging population, which could limit growth in the region due to less necessity for goods. The yen strengthened nicely against the dollar in the second quarter, however. Perhaps anticipating these headwinds, Amazon held their first ever Prime Day in July. There is a discussion on this in the economic outlook section.

Artificial Intelligence

Amazon is a leader in artificial intelligence (AI) and utilizes intellectual property in the form of code to benefit from AI and machine learning (ML). AWS uses lots of AI and ML to provide the best services for customers and adapt to ever changing needs. Rather than making acquisitions like MSFT and investing loads of money into developing AI, AMZN appears to want to keep code proprietary and not invest billions like MSFT. Keeping code in-house might limit revenue potential for AMZN, but that is likely not their goal. The biggest use for AI for AMZN is likely to assist with making AWS and fulfillment centers more efficient as well as assisting online retail customers. Focusing on this rather attempting to profit from AI might better help AMZN's margins and sales growth in other segments.

Antitrust Concerns

In September, Amazon was the subject of potential legal action by the Federal Trade Commission (FTC)¹³. The FTC alleges that AMZN has engaged in illegal conduct blocking competition and inflating prices. The FTC is seeking to break Amazon up as a company, forcing AWS and the retail side to operate separately. This obviously could have massive impacts on the Company. If the FTC forces AMZN to break up into different companies, the retail portion of the business might continue to operate at a loss and not enjoy the offsetting gains from AWS. Considering AMZN has razor thin margins and arguably does not operate as a monopoly in any segment, this case seems unnecessary. Monopolies do not have any competitors, but Amazon does. The Company makes strategic investments and decisions to benefit the shareholders, as is the goal of

every company in the history of companies. AMZN happens to do it very well.

The chairwoman of the FTC, Lina Khan, has a history of despising the power of Amazon as well as Big Tech, as evidenced by her previous cases. In our opinion, AMZN will not have to break up into different companies and will continue to enjoy the privilege of operating freely, as they should.

Due to this lawsuit being recently published and has not been a timeline established, it was not factored into the model constructed. Obviously if Amazon breaks up, it would be a vastly different model, but that is too far in the future to take into consideration.

INDUSTRY TRENDS

Unionization

Joe Biden is the self-proclaimed most pro-union President in history. This proclamation has led to more workers in varying industries attempting to unionize. This has led to workers at companies like Amazon and Starbucks attempting to unionize. In 2020, an Amazon worker was fired in Staten Island after leading a walkout, but AMZN stated the reason was due to violating quarantine and safety measures²². Upon being fired, the worker began a movement and was pushing his fellow workers to form a union. This eventually paid off and there was a union formed after 5,000 voters voted for it.

Amazon already offers competitive pay, benefits, and college tuition²². Workers have complained about the shifts and constantly having to be on their feet and unfair conditions. Companies such as Walmart are already utilizing robots and AI in warehouses in place of workers. If there are continued threats of unionization at Amazon, there might be a faster shift towards the use of robotics and automation in warehouses.

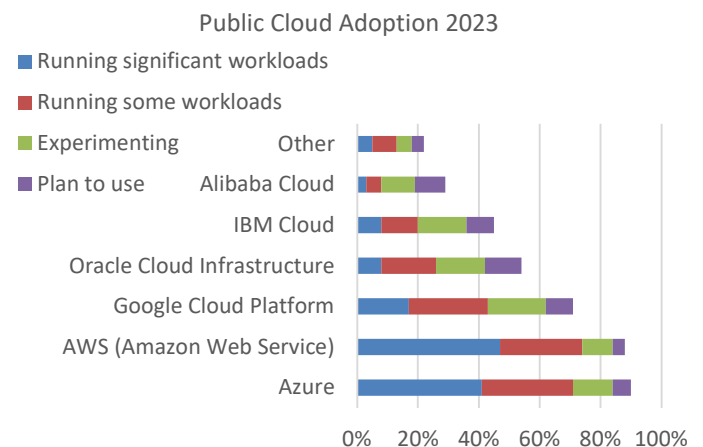
Premiumization

Premiumization is the act of up charging goods to make them appear as high-end goods or of higher quality. The era of premiumization is over. In an inflationary environment that is seemingly plaguing many developed countries' economies, forcing central banks to raise rates, effects of these rate increases will soon be felt. As the rate

increases continue to flow through the economy, unemployment will likely rise, variable interest payments will rise, and consumers will continue to feel less optimistic about the economy. Pairing these concerns with lower savings means that consumers will be looking for better deals and not splurging on expensive goods as much. Amazon could be a beneficiary of this. July's Prime Day saw consumers purchase 375 million items and save a whopping \$2.5 billion. The first Prime Day of the year saw the most deals that Amazon has ever offered as well as the largest for independent sellers¹¹, who may be offering lower cost items.

Cloud Services

The COVID-19 pandemic forced the entire world to adapt to working from home and ushered in new technologies that had not been used as widely. Cloud service providers benefitted immensely from work from home policies. Companies needed to maintain computing power, storage, etc. even though workers were at home. This is where cloud computing came into play. AWS was already in demand, and the pandemic further showed companies the need for strong digital infrastructure. The largest growth potential is in public consumers at home, rather than in the business sector.



Source: Statista

Shrinkage

Shrinkage refers to the amount of goods that are spoiled, damaged, stolen, or just generally unable to be sold to the public. With Amazon primarily selling online, theft is not a

primary concern. The largest shrinkage risk is damage to third-party sellers' inventory and spoilage to goods in Whole Foods and Amazon grocery stores. Spoilage is noted in the 10k as a significant inventory risk and can be difficult to protect against. With improvements in AI and data centers, Amazon will be able to determine the needs for certain geographic locations to limit spoilage. Limiting spoilage will help improve margins as well keeping items consumers desire most in stock, leading to higher satisfaction and potentially more visits.

MARKETS AND COMPETITION

Peer Comparisons

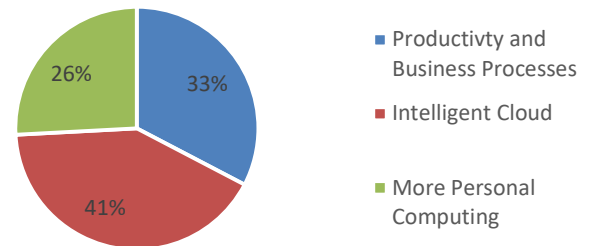
Amazon operates in multiple sectors, leading to a need for a diverse peer group. Of the peer set, AMZN had the third higher operating margin over the trailing 12 months at 7.82%¹⁵. The retailers, Walmart, and Costco each had lower operating margins. However, Amazon's retail segments operate at a loss. Walmart and Costco each have membership offerings. Amazon charges \$139 per year for Prime membership, Walmart+ charges \$98, and Costco charges \$60 or \$120.

Microsoft

Microsoft is a leader in the cloud computing space and has great infrastructure in place to continue to grow their influence and improve cloud capabilities. MSFT plans to continue to use Artificial Intelligence (AI) to grow their capabilities. MSFT made a massive acquisition to acquire OpenAI to help assist in building out their AI capabilities. Although the Company will continue to utilize AI, they will continue to incur deep costs to build and support capabilities¹². While MSFT is spending the money to develop technology, there are open sources available to companies at a much cheaper cost. This is where AMZN could have an advantage over MSFT. While MSFT continues to incur deep costs, AMZN could have engineers take advantage of the open-source code and alter that rather than incur deep costs. Amazon opting to go this route rather than develop their own technology could improve margins in AWS as well as online sales. AI has the

potential to make better recommendations to consumers as well as increase the capabilities of AWS.

MSFT '23 Rev



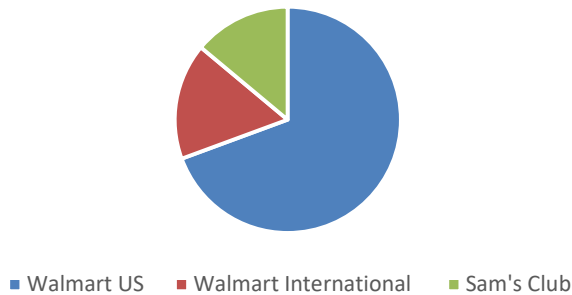
Source: MSFT 10k

Walmart

Walmart is the clear leader in the grocery segment and offers cheap goods to consumers. WMT directly competes with Amazon in each of these segments and is continuing to work on grocery delivery capabilities. Whole Foods is currently more in direct competition with Walmart than Amazon Fresh and Go, but as WMT continues to invest in and strengthen delivery capabilities, Amazon Fresh will face more pressure. With Walmart's main business being in the grocery sector, they already have the infrastructure to keep everything consumers order fresh and on hand. This is arguably Amazon's biggest obstacle to continuing to grow this segment. Walmart also competes with Amazon in the low-cost goods segment. Everyday low prices is WMT's motto, and when these goods are offered in stores and consumers do not have to wait for shipping, they might be more apt to visit the store. Unlike Amazon, Walmart is exposed to shrinkage, which has led the

company to close stores in areas where it is a large problem.

WMT '23 Rev

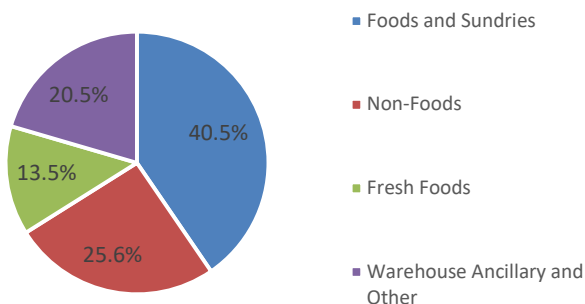


Source: WMT 10k

Costco

Costco is a retailer that operates 861 stores in 15 countries. The membership model is similar to that of Amazon, but different in the sense that consumers do not need a membership to shop on Amazon. In 2023, COST had 127,900 members, a growth of 7.5% from 2022 and still behind Amazon. Costco competes directly with Amazon in multiple categories, but the biggest competition is in discretionary purchases. Costco often offers consumers weekly discounts and has special deals on goods. Although they offer discounts, AMZN has the advantage in the breadth of products and fast shipping. COST is also well-known for their food court, although it is not a major revenue driver, it keeps customers coming in and keeping them happy. In 2023, Costco derived 73% of revenues from the United States, 14% from Canada and the rest from various other countries.

COST '23 Rev

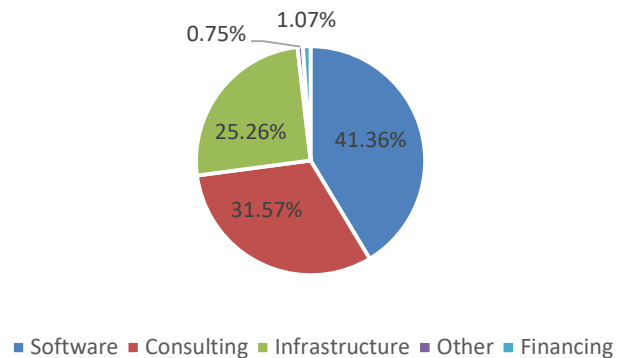


Source: COST 10k

IBM

International Business Corporation (IBM) is one of America's oldest companies, being founded in 1911. Since inception, IBM has been focused on technological innovations and is viewed as a leader. Today, IBM has been investing in cloud growth and utilizing AI. IBM reports three major revenue segments, software, consulting, and infrastructure. This opens the Company up to the same relative risk as AMZN. When the economy is going well, business spending on software and infrastructure is generally higher. IBM does not have exposure to consumers the same way as Amazon does and relies on businesses to be spending on software. The Company also has a consulting sector that can help hedge against slowdowns in spending by business utilizing existing infrastructure better. IBM operates internationally, which can help slowdowns in different markets. In 2022, 51% of revenues came from the United States, 30% came from EMEA, and 19% came from Asia Pacific. IBM is one of Amazon's biggest competitors in the cloud space and we expect that this competition will continue. As IBM continues to improve cloud services, it is likely that market share will be taken from AWS, hindering AMZN.

IBM Rev Breakdown '22



Source: 10k

ECONOMIC OUTLOOK

Consumer Confidence Index

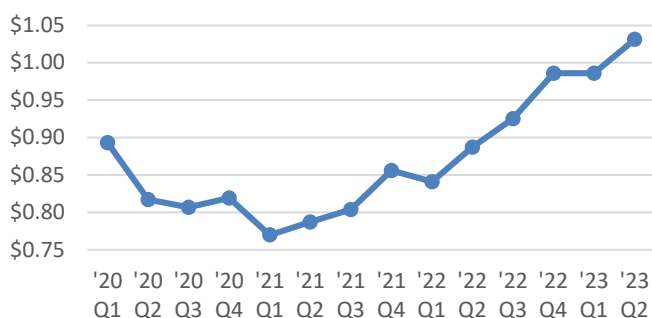
The consumer confidence index rose in both June and July but fell in August. Although the index rose in July, it was downwardly revised to 114. In August, the index fell to a reading of 106.1¹⁰. Interestingly, confidence of consumers with household incomes above \$100,000 fell the most

notably. Responses showed that the increases in gasoline and grocery prices were on the top of consumers minds. With the recent surge in gas prices and grocery prices staying elevated, it is a fair assumption that the index will continue to fall. As the Federal Reserve rate increases continue to work through the economy, consumers will continue to face pain as well as potential job cuts. As consumers face higher prices in necessities such as gas and groceries, they might be more likely to cut back on discretionary spending. However, if they live in an area with an Amazon Go or Fresh store, this could drive consumers to utilize these stores.

Credit Card Usage

Consumers are becoming increasingly fragile and are turning to credit cards to make ends meet. In June 2023, the likelihood of consumers needing \$2,000 was 34.8% and the likelihood of coming up with \$2,000 was 66%. This represents an increase of 2.6% and a decrease of 1% from February 2023⁸. As more consumers are potentially needing \$2,000 for an emergency, but not being able to come up with it, they are turning to credit cards more and more. Credit card balance increased 4.6% quarter-over-quarter to an all-time high of \$1.03 trillion⁹. Coupling this with student loan repayments beginning, the Federal Reserve potentially keeping rates higher for longer, and increasing unemployment could be a poor outcome for consumers. These factors might also lead to less discretionary spending. This could negatively impact Amazon's higher end goods sales as consumers cycle to cheaper goods as premiumization comes to an end. Amazon's already razor thin margins could get even thinner due to this.

Credit Card Debt (t)



Source: NY Fed

Personal Savings

During the COVID-19 pandemic, personal savings skyrocketed to \$4.85 trillion in Q2, 2020. This was largely due to stimulus checks, low inflation, and the inability to spend money on entertainment. Since this peak, savings have dropped precipitously. In Q2, 2023, personal savings were \$892 billion, representing a decline of 82%⁷. Amazon might have hedged consumer softness by having their annual "Prime Day" in July. Prime Day is a day that is filled with deals tailored to the consumers' wants. Generally, this day is only held once a year, but this year is the first time it will be held twice. The next Prime Day is expected to be held in October. The Company might have split it up this way, so these sales were reflected in Q3 and Q4 earnings rather than just Q4. With personal savings ticking up slightly from Q1 to Q2, consumers might be able to purchase more at the second prime day of the year.

VALUATION

Revenue Assumptions

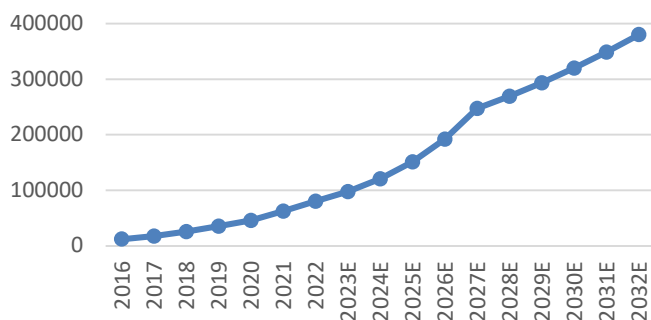
Online sales are Amazon's largest source of revenues. Growth of 7.5% was forecasted in 2023, then falling to 6% in 2024. As developed economies where AMZN has a large presence continue to face struggles, consumer spending will likely fall. This softness could be offset by expanding presence into less economically developed countries. Double digit growth was forecasted in 2025-2027 as these economies recover and consumers will have pent up demand and will likely be spending. The same reasoning was used for physical stores, albeit lower growth figures due to a lower presence and different products offered. By 2027, we expect online store revenue to be \$344 billion and physical store revenue to be \$26 billion, representing CAGR's of 9.1% and 6.7%, respectively.

Third-party seller services made up 23% of total revenues in 2022. We expect to see double digits in growth from 2023-2027. We expect that in 2027, this segment will make up 23% of total sales, or \$221 billion, representing a CAGR of 13.4%. The main driver behind this growth is more people entering the selling industry. As Amazon continues to expand their footprint, this will likely lead to more people selling on the platform. Social media has also increased the reach of independent sellers, which has allowed them to market their products to consumers more and for cheaper.

Subscription services are a large part of AMZN's growth strategy. In Q1 2023, Amazon had 167 million Prime members in the United States, which was a decrease of 1.7% from Q1 2022. We expect to see high growth in this category and do not expect the declining trend in members to continue. We forecast that subscription services will grow 10% in 2023 and achieve a max growth of 13% in 2027. We expect revenues to be \$60 billion, representing a CAGR of 11.3%. As Amazon continues to expand their international presence, subscription services will likely see great growth and can hedge against United States weakness. Arguably the best growth opportunity is in India, and if AMZN pursues this more aggressively, subscription revenue will likely greatly increase.

AWS has seen the greatest revenue growth over the past few years, rising 556% from 2016 to 2022. As cloud computing has gained prominence, Amazon has clearly greatly benefitted from this. We expect this to continue to be Amazon's greatest revenue growth segment in the forecast period. However, this might be a challenge. As more companies try to launch cloud services as well as undercut the market, AMZN might have to lower costs, which lowers margins. This is easier said than done due to Amazon inking customers to long-term contracts. We forecast that AWS growth will top 20% each year in the forecast period. As more and more businesses continue to utilize AI and cloud services and AMZN expands internationally, AWS will likely be the greatest benefactor of this.

AWS Revenue



Cost Assumptions

Amazon's costs were forecasted to go down as there is more utilization of AI and the Company continues to work on efficiencies and cuts costs. Cost of sales was forecasted as 57.5% in 2023 and falls by 0.25% until 2028. After 2028,

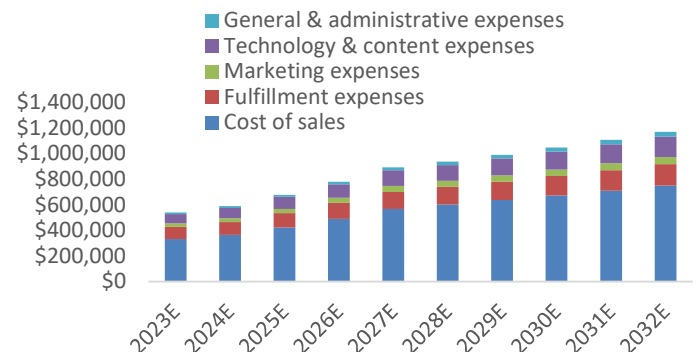
costs were assumed to continue falling and were forecasted as 99% of the previous year.

Fulfillment expenses were forecasted to fall to 36.5% of net product sales then fall by 0.35% in 2024. After this, costs were forecasted as 97% as the prior year until 2028. After this, they were forecasted as 99% of the previous year. Amazon has invested heavily in fulfillment centers and are focusing on more regionalization. As this continues to happen, it is a fair assumption that costs will continue to fall.

Marketing expenses were forecasted as 8.75% of total sales in 2023 and falling by 0.25% until 2027. After this, they were forecasted as 97% of previous years costs. As AI becomes more prominent and business continue to advertise on the platform, costs should continue to fall due to high efficiency and established procedures.

General and administrative expenses were forecasted to rise at the same rate of expected inflation, 3%.

Cost Forecasts



DCF & EP

The discounted cash flow method was the method with the most emphasis of the three methods. The DCF produced a price of \$148.93, representing an upside of 8.2%. The value of operating assets came out to be \$1,555,087 and the non-operating adjustments made were ESOP, excess cash, marketable securities, long-term debt, long-term lease liabilities, and other long-term liabilities. Upon making these adjustments, the value of equity came out to be \$1,411,990. Dividing this by the 10,189 shares outstanding gave a share price of \$149.

The economic profit model followed a similar method. The PV of the EP was found to be \$1,298,274 and the last FYE

invested capital was found to be \$256,593. The same adjustments were made to the value of invested capital to arrive at a value of equity of \$1,411,990. These methods are the fairest way to value Amazon because they do not pay a dividend, trade at a very high multiple, and do not fit in particularly well with any pure peer set.

DDM

The DDM yielded a price of \$73. Amazon does not pay a dividend and has not indicated any plans to do so. This method was not used for price consideration.

Relatives

Compared to the peer set, it appears that Amazon is overvalued. Using relative valuation might not be the best way to value AMZN due to its unique business structure. Most pure cloud companies do not have a retail arm and streaming platform like Amazon. The peer set used for relative valuation was WMT, TGT, NFLX, COST, MSFT and NVDA. The peer set was so diverse due to all the segments AMZN operates and the average P/E for 2023 was 31.39 and 25.46 in 2024. The 2023 price for Amazon was found to be \$86 and \$97 in 2024. Due to these prices that we do not feel accurately reflect AMZN's value, they were not used for price consideration.

WACC

The weighted average cost of capital was found to be 9.97%. The market value weight of equity was found to be 92%, leading to a debt weight of 8%. The risk-free rate assumed was 4.32% and was the yield on the 10-year treasury. The beta was found to be 1.25, and was the average of the 1-year, 2-year, and 5-year weekly betas. The equity risk premium used was 5%, which is the figure the Henry Fund team found to be fair at this point in time.

KEYS TO MONITOR

Tailwinds

- As major global economies struggle, discretionary spending will likely follow. High inflation causing interest rates to be raised across the world will begin to flow through economies and harm consumers.

- Amazon's upcoming potential legal battle will potentially cause uncertainty for investors and for the Company's future direction.

Headwinds

- Amazon is a global leader in e-commerce and has uniquely positioned themselves to continue to be a leader for the foreseeable future. Even if the business segments are forced to be separated, the Company will likely still be strong, albeit in a different way.
- If major economies can avoid recession, consumer spending and confidence will likely pick up. This could lead to an increase in Amazon's online retail sales as well as sales of third-party sellers, prompting more to join the market.

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4. [E-commerce Grocery Share](#)
5. [Amazon Style](#)
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7. [Personal Saving](#)
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Amazon.com, Inc. (AMZN)

September 18, 2023

Consumer Discretionary – Online Retail

Stock Rating

SELL

Investment Thesis

Amazon.com, Inc is one of the world's most well-known companies and has transformed into a leader in cloud services, online retail, and brick-and-mortar retail. Although AMZN has greatly transformed and has become a tech behemoth, we are recommending a sell with a target price of \$140-149, representing an upside of 1-8%.

Drivers of Thesis

- Amazon derives about 68% of revenues from the United States and 10% from Germany. Both economies are teetering on the brink of recession and a weakening consumer. If world economies struggle, AMZN revenue growth will take a hit.
- A legal battle with the Federal Trade Commission could force Amazon to break up and operate as a different company. If this were to happen, there is no telling how the Company would operate.
- Amazon Web Services is AMZN's fastest growing and highest margin segment of business. Although there is great potential, more competition in the space could force Amazon to lower prices, hindering margins and growth.

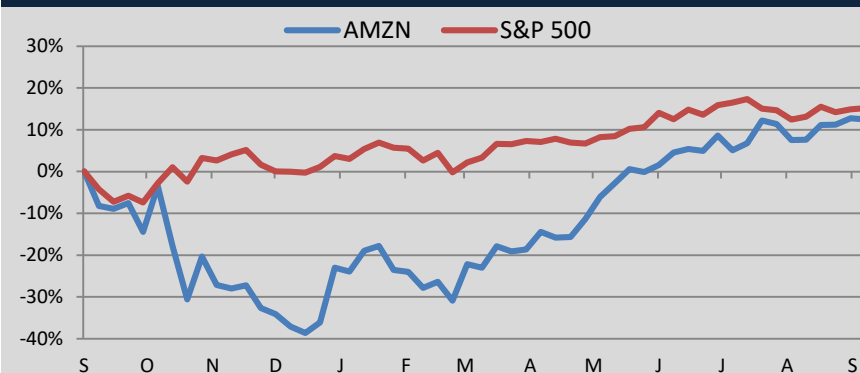
Risks to Thesis

- Amazon can offer consumers great deals on many goods and deliver them to the doorstep in two days or less. Being so consumer centric drives consumers to AMZN.
- Although United States consumer confidence is waning and credit card debt has hit all-time highs, avoiding a recession would likely boost spending. If consumers confidence starts to recover, spending might follow.
- Third-party sellers have become more prominent due to Amazon's massive customer base and fulfillment capabilities. As more of these sellers join the platform, AMZN will likely continue to see higher revenue growth in this segment.

Earnings Estimates

Year	2019	2020	2022	2023E	2024E	2025E
EPS	\$0.47	\$0.30	\$(3.74)	\$2.17	\$3.14	\$4.50
HF est.				\$1.84	\$2.73	\$3.79
Growth	1,000%	-35%	-1,334%	149%	49%	39%

12 Month Performance



Target Price

\$140-149

Henry Fund DCF	\$149
Henry Fund DDM	\$73
Relative Multiple	\$86

Price Data

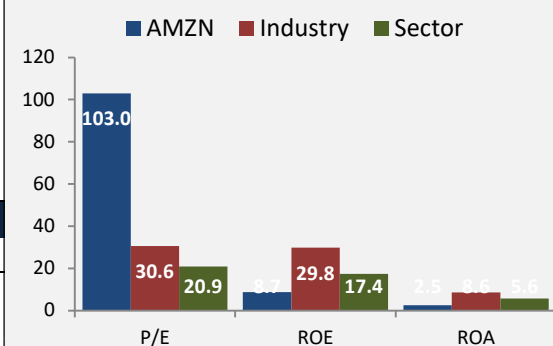
Current Price	\$138
52wk Range	\$81 – 143
Consensus 1yr Target	\$170

Key Statistics

Market Cap (B)	\$1,425
Shares Outstanding (M)	\$1,032
Institutional Ownership	60.5%
Beta	1.25
Dividend Yield	0%
Est. 5yr Growth	78.3%
Price/Earnings (TTM)	115
Price/Earnings (FY1)	43
Price/Sales (TTM)	2.64
Price/Book (mrq)	8.45

Profitability

Operating Margin	3.29%
Profit Margin	2.43%
Return on Assets (TTM)	2.47%
Return on Equity (TTM)	8.71%



Company Description

Amazon.com, Inc. is an online retailer, streaming and cloud services provider headquartered in Seattle, Washington. The Company seeks to be "Earth's most consumer-centric company.¹" Over the last 30 years, Amazon has been making strides to become the most consumer-centric company on Earth, and they are succeeding.

Amazon.com
Revenue Decomposition

Fiscal Years Ending Dec. 31	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
United States	263520	314006	356113	395329	439236	504407	579096	666531	710290	757144	807327	861092	916779
% of total	68.26%	66.84%	69.28%	69.28%	69.28%	69.28%	69.28%	69.28%	69.28%	69.28%	69.28%	69.28%	69.28%
Germany	29565	37326	33598	35795	38136	40630	43288	46119	49135	52348	55772	59419	63305
% of total	7.66%	7.94%	6.54%	6.54%	6.54%	6.54%	6.54%	6.54%	6.54%	6.54%	6.54%	6.54%	6.54%
United Kingdom	26483	31914	30074	31503	32999	34566	36208	37928	39730	41617	43594	45664	47833
% of total	6.86%	6.79%	5.85%	5.85%	5.85%	5.85%	5.85%	5.85%	5.85%	5.85%	5.85%	5.85%	5.85%
Japan	20461	23071	24396	25555	26769	28040	29372	30767	32229	33760	35363	37043	38802
% of total	5.30%	4.91%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%
Rest of world	46035	63505	69802	79281	90047	102276	116165	131940	149858	170208	193323	219576	249394
% of total	11.92%	13.52%	13.58%	13.58%	13.58%	13.58%	13.58%	13.58%	13.58%	13.58%	13.58%	13.58%	13.58%
Total	386064	469822	513983	570626	634001	728071	835878	962083	1025246	1092876	1165310	1242916	1323295
Online Stores	197346	222075	220004	236504	250695	282031	313055	344360	363300	383282	404362	426602	450065
% of total	51.12%	47.27%	42.80%	41.45%	39.54%	38.74%	37.45%	35.79%	35.44%	35.07%	34.70%	34.32%	34.01%
% Growth	39.72%	12.53%	-0.93%	7.50%	6.00%	12.50%	11.00%	10.00%	5.50%	5.50%	5.50%	5.50%	5.50%
Physical Stores	16227	17075	18963	20480	21504	23063	24678	26343	27529	28767	30062	31415	32828
% of total	4.20%	3.63%	3.69%	3.59%	3.39%	3.17%	2.95%	2.74%	2.69%	2.63%	2.58%	2.53%	2.48%
% Growth	-5.61%	5.23%	11.06%	8.00%	5.00%	7.25%	7.00%	6.75%	4.50%	4.50%	4.50%	4.50%	4.50%
Third-party seller services	80461	103366	117716	131842	150300	172093	195756	221204	234477	248545	263458	279265	293229
% of total	20.84%	22.00%	22.90%	23.10%	23.71%	23.64%	23.42%	22.99%	22.87%	22.74%	22.61%	22.47%	22.16%
% Growth	49.66%	28.47%	13.88%	12.00%	14.00%	14.50%	13.75%	13.00%	6.00%	6.00%	6.00%	6.00%	5.00%
Advertising Services	19773	31160	37739	40947	43813	47537	52220	57572	60739	64179	67924	72007	76464
% of total	5.12%	6.63%	7.34%	7.18%	6.91%	6.53%	6.25%	5.98%	5.92%	5.87%	5.83%	5.79%	5.78%
% Growth	0.00%	57.59%	21.11%	8.50%	7.00%	8.50%	9.85%	10.25%	5.50%	5.67%	5.83%	6.01%	6.19%
Subscription Services	25207	31768	35218	38740	42420	47510	53440	60376	64602	69124	73963	79140	84680
% of total	6.53%	6.76%	6.85%	6.79%	6.69%	6.53%	6.39%	6.28%	6.30%	6.32%	6.35%	6.37%	6.40%
% Growth	31.22%	26.03%	10.86%	10.00%	9.50%	12.00%	12.48%	12.98%	7.00%	7.00%	7.00%	7.00%	7.00%
AWS	45370	62202	80096	97717	120720	151126	191856	247183	269429	293678	320109	348919	380322
% of total	11.75%	13.24%	15.58%	17.12%	19.04%	20.76%	22.95%	25.69%	26.28%	26.87%	27.47%	28.07%	28.74%
% Growth	29.53%	37.10%	28.77%	22.00%	23.54%	25.19%	26.95%	28.84%	9.00%	9.00%	9.00%	9.00%	9.00%
Other	1680	2176	4247	4396	4549	4709	4874	5044	5170	5299	5432	5568	5707
% of total	0.44%	0.46%	0.83%	0.77%	0.72%	0.65%	0.58%	0.52%	0.50%	0.48%	0.47%	0.45%	0.43%
Total	386064	469822	513983	570626	634001	728071	835878	962083	1025246	1092876	1165310	1242916	1323295

Fiscal Years Ending Dec. 31	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
NOPLAT:	20376	21154	9470	28248	42442	56437	74229	96671	115994	131478	148415	166938	186492
Add: Online Stores	197346	222075	220004	236504	250695	282031	313055	344360	363300	383282	404362	426602	450065
Add: Physical Stores	16227	17075	18963	20480	21504	23063	24678	26343	27529	28767	30062	31415	32828
Add: Third-party seller services	80461	103366	117716	131842	150300	172093	195756	221204	234477	248545	263458	279265	293229
Add: Advertising Services	19773	31160	37739	40947	43813	47537	52220	57572	60739	64179	67924	72007	76464
Add: Subscription Services	25207	31768	35218	38740	42420	47510	53440	60376	64602	69124	73963	79140	84680
Add: AWS	45370	62202	80096	97717	120720	151126	191856	247183	269429	293678	320109	348919	380322
Add: Other	1680	2176	4247	4396	4549	4709	4874	5044	5170	5299	5432	5568	5707
Less: Cost of sales	233307	272344	288831	330963	362965	415000	474361	543577	576701	608595	642443	678375	715023
Less: Fulfillment expenses	58517	75111	84299	95404	100044	108634	116532	123971	126733	132230	137967	143956	150207
Less: Marketing expenses	22008	32551	42238	27059	30366	34507	39462	45500	47365	49323	51379	53539	55737
Less: Technology & content expenses	42740	56052	73213	74181	80835	91437	103401	117228	117903	125681	134011	142935	152179
Less: General & administrative expenses	6668	8823	11891	11983	13713	16221	19181	22739	24959	27404	30097	33064	36259
Add: Implied lease interest	1244	1859	2776	3273	3460	3589	3675	3725	3748	3751	3737	3710	3674
Total EBIT	24143	26738	15024	33167	49536	65862	86615	112793	135333	153394	173150	194756	217564
Adjusted Taxes													
Income tax provision	2863	4791	-3217	4428	6732	9365	12763	17144	21175	24700	28589	32917	37596
Add: Implied lease interest	187	279	416	491	519	538	551	559	562	563	560	556	551
Less: Tax on Interest income	83.25	67.2	148.35	453.66	529.40	770.69	1138.94	1671.77	2391.06	3146.00	4102.28	5219.61	6507.90
Add: Tax on interest expense	247.05	271.35	355.05	681	709	746	817	888	954	893	926	960	996
Total Adjusted Taxes	3213	5274	-2594	5146	7430	9879	12992	16919	20300	23009	25972	29213	32635
Change in Deferred Taxes	-554	-310	-8148	227	336	455	606	797	961	1093	1237	1395	1562
Invested Capital (IC):													
Operating Current Assets:													
Normal Cash	29763	36220	39625	43991	48877	56129	64440	74170	79039	84253	89837	95820	102017
Accounts Receivable	24542	32891	42360	42797	45965	52057	58511	65903	66641	71037	75745	80790	86014
Inventories	23795	32640	34405	35286	36392	40274	43682	47344	48906	51543	54322	57253	60342
Total Operating CA	78100	101751	116390	122074	131234	148461	166634	187417	194586	206833	219905	233862	248373
Operating Current Liabilities:													
Accounts Payable	72539	78664	79600	79888	85590	94649	104485	115450	117903	125681	134011	142935	152179
Accrued expenses & other current liabilities	9708	11827	13227	14685	16316	18736	21511	24759	26384	28124	29988	31986	34054
Accrued Expenses	44138	51775	62566	59916	68567	81103	95906	113697	124797	137020	150484	165321	181293
Total Operating CL	126385	142266	155393	154488	170473	194489	221901	253906	269084	290825	314484	340242	367526
Net Working Capital	-48285	-40515	-39003	-32413	-39238	-46028	-55267	-66489	-74498	-83992	-94579	-106380	-119153
Net PPE	113114	160281	186715	197360	204762	209623	212500	213829	213955	213151	211631	209563	207080
Net Other Operating Assets													
Operating lease assets	37553	56082	66123	69893	72514	74236	75254	75725	75770	75485	74947	74214	73335
Other assets	22778	27235	42758	42797	47550	54605	62691	72156	76893	81966	87398	93219	99247
Total Net Other Operating Assets	60331	83317	108881	112690	120064	128841	137945	147881	152663	157451	162345	167433	172582
Net Other Operating Liabilities													
Total Net Other Operating Liabilities	0	0	0	0	0	0	0	0	0	0	0	0	0
Invested Capital (IC)	125160	203083	256593	277637	285588	292437	295178	295221	292121	286610	279397	270616	260509
Free Cash Flow (FCF):													
NOPLAT	20376	21154	9470	28248	42442	56437	74229	96671	115994	131478	148415	166938	186492
Change in IC	35873	77923	53510	21044	7951	6849	2742	43	-3100	-5511	-7213	-8781	-10107
FCF	-15497	-56769	-44040	7204	34491	49588	71487	96628	119094	136989	155627	175719	196599
Return on Invested Capital (ROIC):													
NOPLAT	20376	21154	9470	28248	42442	56437	74229	96671	115994	131478	148415	166938	186492
Beginning IC	89287	125160	203083	256593	277637	285588	292437	295178	295221	292121	286610	279397	270616
ROIC	22.82%	16.90%	4.66%	11.01%	15.29%	19.76%	25.38%	32.75%	39.29%	45.01%	51.78%	59.75%	68.91%
Economic Profit (EP):													
Beginning IC	89287	125160	203083	256593	277637	285588	292437	295178	295221	292121	286610	279397	270616
x (ROIC - WACC)	12.85%	6.93%	-5.30%	1.04%	5.32%	9.79%	15.41%	22.78%	29.32%	35.04%	41.81%	49.78%	58.95%
EP	11475.83	8677.93	-10773.40	2670.60	14766.85	27969.62	45078.68	67247.29	86566.55	102358.95	119845.38	139087.53	159516.73

Amazon.com
Balance Sheet

Fiscal Years Ending Dec. 31	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Cash & cash equivalents	42122	36220	53888	64882	101399	157483	238938	349139	464808	611518	783049	980927	1206750
Marketable securities	42274	59829	16138	16835	17562	18321	19112	19937	20798	21697	22634	23611	24631
Inventories	23795	32640	34405	35286	36392	40274	43682	47344	48906	51543	54322	57253	60342
Accounts receivable, net & other curr	24542	32891	42360	42797	45965	52057	58511	65903	66641	71037	75745	80790	86014
Total current assets	132733	161580	146791	159800	201319	268135	360243	482323	601153	755794	935750	1142581	1377737
Gross property & equipment	173548	238800	283730	333730	382730	430750	477810	523928	569124	613416	656822	699361	741048
Less accumulated depreciation & am	60434	78519	97015	136370	177968	221127	265310	310099	355169	400265	445192	489798	533968
Property & equipment, net	113114	160281	186715	197360	204762	209623	212500	213829	213955	213151	211631	209563	207080
Operating leases	37553	56082	66123	69893	72514	74236	75254	75725	75770	75485	74947	74214	73335
Goodwill	15017	15371	20288	20288	20288	20288	20288	20288	20288	20288	20288	20288	20288
Other assets	22778	27235	42758	42797	47550	54605	62691	72156	76893	81966	87398	93219	99247
Total assets	321195	420549	462675	490138	546433	626888	730976	864322	988060	1146684	1330014	1539864	1777687
Accounts payable	72539	78664	79600	79888	85590	94649	104485	115450	117903	125681	134011	142935	152179
Accrued expenses & other current lia	44138	51775	62566	59916	68567	81103	95906	113697	124797	137020	150484	165321	181293
Unearned revenue	9708	11827	13227	14685	16316	18736	21511	24759	26384	28124	29988	31986	34054
Total current liabilities	126385	142266	155393	154488	170473	194489	221901	253906	269084	290825	314484	340242	367526
Long-term lease liabilities	52573	67651	72968	77128	80021	81921	83045	83564	83614	83299	82705	81897	80927
Total long-term debt	33174	50553	70542	72616	75133	80925	86114	89948	92020	94623	97249	99951	102682
Current portion of long-term debt	1155	1491	2999	3000	8500	5249	3543	8750	6917	6917	6917	6917	6917
Long-term debt	31816	48744	67150	70542	73307	77091	82134	86931	91963	93613	96216	98843	101544
Other long-term liabilities	17017	23643	21121	22825	25360	29123	33435	38483	28194	30054	32046	34180	36391
Total long-term liabilities	102561	140038	161239	170495	178688	188135	198614	208978	203771	206967	210968	214920	218861
Common Equity	42870	55543	75174	75179	75180	75180	75180	75180	75180	75180	75180	75180	75180
Common stock	5	5	108	108	108	108	108	108	108	108	108	108	108
Treasury stock, at cost	1837	1837	7837	9337	10882	12473	14112	15801	17540	19331	21176	23076	25033
Accumulated other comprehensive ir	-180	-1376	-4487	-4487	-4487	-4487	-4487	-4487	-4487	-4487	-4487	-4487	-4487
Retained earnings (accumulated defi	52551	85915	83193	103800	137462	186045	253882	346546	462052	597531	755046	937086	1145640
Total stockholders' equity (deficit)	93404	138245	146043	165155	197273	244265	310462	401438	515205	648893	804563	984702	1191300

Amazon.com
Income Statement

<i>Fiscal Years Ending Dec. 31</i>	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
				0.5913953									
Net product sales	215915	241787	242901	261380	276748	309803	342606	375748	395999	417349	439856	463585	488601
Net services sales	170149	228035	271082	309246	357253	418267	493272	586335	629247	675527	725454	779331	834695
Total net sales	386064	469822	513983	570626	634001	728071	835878	962083	1025246	1092876	1165310	1242916	1323295
Cost of sales	233307	272344	288831	330963	362965	415000	474361	543577	576701	608595	642443	678375	715023
Fulfillment expenses	58517	75111	84299	95404	100044	108634	116532	123971	126733	132230	137967	143956	150207
	27.1%	31.1%	34.7%	36.5%	36.2%	35.1%	34.0%	33.0%	32.0%	31.7%	31.4%	31.1%	30.7%
Marketing expenses	22008	32551	42238	27059	30366	34507	39462	45500	47365	49323	51379	53539	55737
Technology & content expenses	42740	56052	73213	74181	80835	91437	103401	117228	117903	125681	134011	142935	152179
General & administrative expenses	6668	8823	11891	11983	13713	16221	19181	22739	24959	27404	30097	33064	36259
Total operating expenses & costs	363165	444943	501735	539590	587925	665798	752937	853015	893661	943232	995897	1051870	1109404
Operating income	22899	24879	12248	31036	46076	62272	82941	109068	131585	149643	169413	191046	213891
Interest income	555	448	989	3024	3529	5138	7593	11145	15940	20973	27349	34797	43386
Interest expense	1647	1809	2367	4537	4724	4974	5447	5918	6357	5951	6172	6400	6639
Other income (expense), net	2371	14633	-16806	0	0	0	0	0	0	0	0	0	0
Total non-operating income (expense)	1279	13272	-18184	29523	44881	62436	85086	114296	141168	164666	190590	219444	250637
Income (loss) before income taxes	24178	38151	-5936	29523	44881	62436	85086	114296	141168	164666	190590	219444	250637
Provision (benefit) for income taxes	2863	4791	-3217	4428	6732	9365	12763	17144	21175	24700	28589	32917	37596
Net income (loss)	21331	33364	-2722	25,094	38,149	53,070	72,323	97,151	119,993	139,966	162,002	186,527	213,042
Weighted-average shares	10005	10117	10189	13669	14008	13998	13990	13981	13974	13967	13960	13954	13948
EPS	0.47	0.30	(3.74)	1.84	2.72	3.79	5.17	6.95	8.59	10.02	11.60	13.37	15.27

Amazon.com
Historical Cash Flow Statement

Fiscal Years Ending Dec. 31	2016	2017	2018	2019	2020	2021	2022
Net income (loss)	2371	3033	10073	11588	21331	33364	-2722
Depreciation of property & equipment	8116	11478	15341	-	-	-	-
Depreciation & amortization of property	-	-	-	21789	25251	34296	41921
Stock-based compensation	2975	4215	5418	6864	9208	12757	19621
Other operating expense (income), net	160	202	274	164	-71	137	-
Other expense (income), net	-20	-292	219	-249	-2582	-14306	16966
Deferred income taxes	-246	-29	441	796	-554	-310	-8148
Inventories	-1426	-3583	-1314	-3278	-2849	-9487	-2592
Accounts receivable, net & other current assets	-3367	-4786	-4615	-7681	-8169	-18163	-21897
Accounts payable	5030	7175	3263	8193	17480	3602	2945
Accrued expenses & other liabilities	1724	283	472	-1383	5754	2123	-1558
Additions to unearned revenue	11931	738	1151	1711	1265	2314	2216
Net cash flows from operating activities	16443	18434	30723	38514	66064	46327	46752
Purchases of property & equipment	-6737	-11955	-13427	-16861	-40140	-61053	-63645
Proceeds from property & equipment	-	-	-	4172	5096	5657	5324
Acquisitions, net of cash acquired, & sales & maturities of marketable securities	-116	-13972	-2186	-2461	-2325	-1985	-8316
Purchases of marketable securities	-7756	-13777	-7100	-31812	-72479	-60157	-2565
Net cash flows from investing activities	-9876	-27819	-12369	-24281	-59611	-58154	-37601
Proceeds from short-term debt, & other borrowings	-	-	-	-	6796	7956	41553
Repayments of short-term debt, & other borrowings	-	-	-	-	-6177	-7753	-37554
Excess tax benefits from stock-based compensation	829	-	-	-	-	-	-
Common stock repurchased	-	-	-	-	-	-	-6000
Proceeds from long-term debt	-	-	-	-	10525	19003	21166
Proceeds from long-term debt & other borrowings	621	16231	768	2273	-	-	-
Repayment of long-term debt	-	-	-	-	-1553	-1590	-1258
Repayments of long-term debt & other borrowings	-354	-1372	-668	-2684	-	-	-
Principal repayments of capital lease obligations	-3860	-4799	-7449	-	-	-	-
Principal repayments of finance lease obligations	-147	-200	-337	-9628	-10642	-11163	-7941
Principal repayments of financing obligations	-	-	-	-27	-53	-162	-248
Net cash flows from financing activities	-2911	9860	-7686	-10066	-1104	6291	9718

Amazon.com
Forecasted Cash Flow Statement

<i>Fiscal Years Ending Dec. 31</i>	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Net income	25,094.31	38,148.79	53,070.25	72,323.40	97,151.19	119,992.76	139,966.05	162,001.89	186,526.99	213,041.71
Marketable securities	-697.00	-727.10	-758.51	-791.27	-825.44	-861.09	-898.28	-937.08	-977.55	-1019.77
Inventories	-881.30	-1106.08	-3882.04	-3407.83	-3661.96	-1561.67	-2636.67	-2779.68	-2930.47	-3089.47
Accounts receivable, net & other cur	-436.92	-3168.13	-6091.98	-6454.40	-7391.24	-738.30	-4395.94	-4708.26	-5044.36	-5224.65
Other assets	-38.92	-4753.14	-7055.23	-8085.54	-9465.39	-4737.22	-5072.23	-5432.61	-5820.41	-6028.44
Accounts payable	288	5703	9059	9836	10965	2453	7777	8330	8925	9244
Accrued expenses & other current li	-2650	8651	12536	14802	17792	11099	12223	13465	14837	15972
AOCI	-4487	-4487	-4487	-4487	-4487	-4487	-4487	-4487	-4487	-4487
Depreciation & Amortization	39355	41598	43158	44183	44789	45070	45096	44927	44606	44170
Unearned revenue	1458	1631	2421	2774	3248	1625	1740	1864	1997	2069
Cash from operating activities	57003	81491	97970	120693	148115	167855	189313	212243	237632	264647
Common Stock Repurchases	-1500	-1545	-1591	-1639	-1688	-1739	-1791	-1845	-1900	-1957
Capital Expenditures	-50000	-49000	-48020	-47060	-46118	-45196	-44292	-43406	-42538	-41687
Operating leases	-3770	-2621	-1722	-1019	-471	-45	285	538	732	879
Cash from investing activities	-55270	-53166	-51333	-49717	-48277	-46980	-45798	-44713	-43706	-42765
Common equity	5.03	0.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long-term lease liabilities	4160	2893	1900	1124	519	49	-314	-594	-808	-970
Long-term debt	3392	2765	3784	5043	4797	5033	1650	2603	2626	2701
Other long-term liabilities	1704	2535	3763	4312	5048	-10289	1860	1992	2134	2210
Cash from financing activities	9261	8193	9447	10479	10364	-5207	3196	4001	3952	3941
Cash & equivalents increase (decrea	10994	36517	56084	81454	110202	115668	146710	171531	197878	225823
Cash & equivalents at beginning of y	53888	64882	101399	157483	238938	349139	464808	611518	783049	980927
Cash & equivalents at end of year	64,882.05	101,399.35	157,483.13	238,937.62	349,139.28	464,807.64	611,517.92	783,048.82	980,926.97	1,206,749.70

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Common Size Balance Sheet

Fiscal Years Ending Dec. 31	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Cash & cash equivalents	10.91%	7.71%	10.48%	11.37%	15.99%	21.63%	28.59%	36.29%	45.34%	55.95%	67.20%	78.92%	91.19%
Marketable securities	10.95%	12.73%	3.14%	2.95%	2.77%	2.52%	2.29%	2.07%	2.03%	1.99%	1.94%	1.90%	1.86%
Inventories	6.16%	6.95%	6.69%	13.50%	13.15%	13.00%	12.75%	12.60%	12.35%	12.35%	12.35%	12.35%	12.35%
Accounts receivable, net & other cu	6.36%	7.00%	8.24%	7.50%	7.25%	7.15%	7.00%	6.85%	6.50%	6.50%	6.50%	6.50%	6.50%
Total current assets	34.38%	34.39%	28.56%	28.00%	31.75%	36.83%	43.10%	50.13%	58.64%	69.16%	80.30%	91.93%	104.11%
Property & equipment, net	29.30%	34.12%	36.33%	34.59%	32.30%	28.79%	25.42%	22.23%	20.87%	19.50%	18.16%	16.86%	15.65%
Operating leases	9.73%	11.94%	12.86%	12.25%	11.44%	10.20%	9.00%	7.87%	7.39%	6.91%	6.43%	5.97%	5.54%
Goodwill	3.89%	3.27%	3.95%	3.56%	3.20%	2.79%	2.43%	2.11%	1.98%	1.86%	1.74%	1.63%	1.53%
Other assets	5.90%	5.80%	8.32%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Total assets	83.20%	89.51%	90.02%	85.89%	86.19%	86.10%	87.45%	89.84%	96.37%	104.92%	114.13%	123.89%	134.34%
Accounts payable	18.79%	16.74%	15.49%	14.00%	13.50%	13.00%	12.50%	12.00%	11.50%	11.50%	11.50%	11.50%	11.50%
Accrued expenses & other current li	11.43%	11.02%	12.17%	10.50%	10.82%	11.14%	11.47%	11.82%	12.17%	12.54%	12.91%	13.30%	13.70%
Unearned revenue	2.51%	2.52%	2.57%	2.57%	2.57%	2.57%	2.57%	2.57%	2.57%	2.57%	2.57%	2.57%	2.57%
Total current liabilities	32.74%	30.28%	30.23%	27.07%	26.89%	26.71%	26.55%	26.39%	26.25%	26.61%	26.99%	27.37%	27.77%
Long-term lease liabilities	13.62%	14.40%	14.20%	13.52%	12.62%	11.25%	9.94%	8.69%	8.16%	7.62%	7.10%	6.59%	6.12%
Long-term debt	8.24%	10.37%	13.06%	12.36%	11.56%	10.59%	9.83%	9.04%	8.97%	8.57%	8.26%	7.95%	7.67%
Other long-term liabilities	0.48%	0.39%	4.11%	4.00%	4.00%	4.00%	4.00%	4.00%	2.75%	2.75%	2.75%	2.75%	2.75%
Total Long-Term Liabilities	26.57%	29.81%	31.37%	29.88%	28.18%	25.84%	23.76%	21.72%	19.88%	18.94%	18.10%	17.29%	16.54%
Common Equity	11.10%	11.82%	14.63%	13.17%	11.86%	10.33%	8.99%	7.81%	7.33%	6.88%	6.45%	6.05%	5.68%
Common stock	0.00%	0.00%	0.02%	0.02%	0.02%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
Treasury stock, at cost	0.48%	0.39%	1.52%	1.64%	1.72%	1.71%	1.69%	1.64%	1.71%	1.77%	1.82%	1.86%	1.89%
Accumulated other comprehensive i	0.05%	0.29%	0.87%	0.79%	0.71%	0.62%	0.54%	0.47%	0.44%	0.41%	0.39%	0.36%	0.34%
Retained earnings (accumulated de	13.61%	18.29%	16.19%	18.19%	21.68%	25.55%	30.37%	36.02%	45.07%	54.68%	64.79%	75.39%	86.57%
Total stockholders' equity (deficit)	24.19%	29.42%	28.41%	28.94%	31.12%	33.55%	37.14%	41.73%	50.25%	59.37%	69.04%	79.23%	90.03%

Amazon.com

Common Size Income Statement

Fiscal Years Ending Dec. 31	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Net product sales	55.93%	51.46%	47.26%	45.81%	43.65%	42.55%	40.99%	39.06%	38.62%	38.19%	37.75%	37.30%	36.92%
Net services sales	44.07%	48.54%	52.74%	54.19%	56.35%	57.45%	59.01%	60.94%	61.38%	61.81%	62.25%	62.70%	63.08%
Total net sales	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of sales	60.43%	57.97%	56.19%	58.00%	57.25%	57.00%	56.75%	56.50%	56.25%	55.69%	55.13%	54.58%	54.03%
Fulfillment expenses	27.10%	31.06%	34.71%	36.50%	36.15%	35.07%	34.01%	32.99%	32.00%	31.68%	31.37%	31.05%	30.74%
Marketing expenses	5.70%	6.93%	8.22%	8.75%	8.50%	8.25%	8.00%	7.76%	7.53%	7.30%	7.08%	6.87%	6.68%
Technology & content expenses	11.07%	11.93%	14.24%	13.00%	12.75%	12.56%	12.37%	12.18%	11.50%	11.50%	11.50%	11.50%	11.50%
General & administrative expenses	1.73%	1.88%	2.31%	2.10%	2.16%	2.23%	2.29%	2.36%	2.43%	2.51%	2.58%	2.66%	2.74%
Total operating expenses & costs	94.07%	94.70%	97.62%	94.56%	92.73%	91.45%	90.08%	88.66%	87.17%	86.31%	85.46%	84.63%	83.84%
Operating income	5.93%	5.30%	2.38%	5.44%	7.27%	8.55%	9.92%	11.34%	12.83%	13.69%	14.54%	15.37%	16.16%
Interest income	0.14%	0.10%	0.19%	0.53%	0.56%	0.71%	0.91%	1.16%	1.55%	1.92%	2.35%	2.80%	3.28%
Interest expense	0.43%	0.39%	0.46%	0.80%	0.75%	0.68%	0.65%	0.62%	0.62%	0.54%	0.53%	0.51%	0.50%
Total non-operating income (expens	0.33%	2.82%	-3.54%	5.17%	7.08%	8.58%	10.18%	11.88%	13.77%	15.07%	16.36%	17.66%	18.94%
Income (loss) bef income taxes- Uni	6.26%	8.12%	-1.15%	5.17%	7.08%	8.58%	10.18%	11.88%	13.77%	15.07%	16.36%	17.66%	18.94%
Provision (benefit) for income taxes	0.74%	1.02%	-0.63%	0.78%	1.06%	1.29%	1.53%	1.78%	2.07%	2.26%	2.45%	2.65%	2.84%
Equity-method investment activity, n	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Net income (loss)	5.53%	7.10%	-0.53%	4.40%	6.02%	7.29%	8.65%	10.10%	11.70%	12.81%	13.90%	15.01%	16.10%

Amazon.com

Weighted Average Cost of Capital (WACC) Estimation

Cost of Equity:

Risk-Free Rate	4.32%
Beta	1.25
Equity Risk Premium	5.00%
Cost of Equity	10.55%

ASSUMPTIONS:

10-year treasury bond
Average of 2, 3, 4, and
HF Team Assumption

Cost of Debt:

Risk-Free Rate	4.32%
Implied Default Premium	0.63%
Pre-Tax Cost of Debt	4.95%
Marginal Tax Rate	15%
After-Tax Cost of Debt	4.21%

10-year US Treasury

YTM on 17-year bond

Market Value of Common Equity:

Total Shares Outstanding	10800
Current Stock Price	\$137.63
MV of Equity	1,486,404.00

MV Weights

91.60%

Market Value of Debt:

Short-Term Debt	0
Current Portion of LTD	2999
Long-Term Debt	67150
PV of Operating Leases	66123
MV of Total Debt	136,272.00

8.40%

Amazon.com*Dividend Discount Model (DDM) or Fundamental P/E Valuation Model*

Fiscal Years Ending Dec. 31	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
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EPS	\$ 1.84	\$ 2.72	\$ 3.79	\$ 5.17	\$ 6.95	\$ 8.59	\$ 10.02	\$ 11.60	\$ 13.37	\$ 15.27
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Key Assumptions

CV growth of EPS	2.50%
CV Year ROE	21.64%
Cost of Equity	10.55%

Future Cash Flows

P/E Multiple (CV Year)	10.981
EPS (CV Year)	\$ 15.27
Future Stock Price	\$ 167.73
Dividends Per Share	
Discounted Cash Flows	\$ 67.99


Intrinsic Value as of Last FYE \$ 67.99

Implied Price as of Today **\$ 73.07**

Amazon.com

Relative Valuation Models

Ticker	Company	Price	EPS 2024E	EPS 2025E	P/E 23	P/E 24
WMT	Walmart	\$157.82	\$6.45	\$7.09	24.47	22.26
TGT	Target	\$121.79	\$7.60	\$9.03	16.03	13.49
NFLX	Netflix	\$416.03	\$11.88	\$15.39	35.02	27.03
COST	Costco	\$564.35	\$14.38	\$15.70	39.25	35.95
MSFT	Microsoft Corp	\$322.98	\$10.96	\$12.62	29.47	25.59
NVDA	Nvidia	\$460.18	\$10.43	\$16.18	44.12	28.44
Average					31.39	25.46

 AMA	Amazon.com	\$137.63	2.72	3.79	50.5	36.3
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Implied Relative Value:

P/E (EPS23) \$ 85.49

P/E (EPS24) \$ 96.52

Amazon.com
Key Management Ratios

Fiscal Years Ending Dec. 31	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Liquidity Ratios:													
Current Ratio ((CA-Inventory)/CL)	0.86	0.91	0.72	0.81	0.97	1.17	1.43	1.71	2.05	2.42	2.80	3.19	3.58
Cash Ratio (Cash/CL)	0.33	0.25	0.35	0.42	0.59	0.81	1.08	1.38	1.73	2.10	2.49	2.88	3.28
Quick Ratio ((Cash+A/R)/CL)	0.53	0.49	0.62	0.70	0.86	1.08	1.34	1.63	1.98	2.35	2.73	3.12	3.52
Asset-Management Ratios:													
Total Asset Turnover (Net income/Avg. Total Assets)	0.08	0.09	-0.01	0.05	0.07	0.09	0.11	0.12	0.13	0.13	0.13	0.13	0.13
Fixed Asset Turnover (Net income/Avg. Fixed Assets)	0.33	0.38	-0.03	0.23	0.34	0.46	0.62	0.83	1.02	1.20	1.40	1.62	1.87
A/R Turnover	2.45	2.62	3.05	3.35	3.16	2.70	2.32	1.98	1.78	1.51	1.29	1.12	0.99
Financial Leverage Ratios:													
Debt to Equity (D/E)	0.35	0.36	0.48	0.45	0.41	0.34	0.28	0.24	0.19	0.15	0.13	0.11	0.09
Debt to Assets (D/A)	0.10	0.12	0.15	0.15	0.15	0.13	0.12	0.11	0.10	0.09	0.08	0.07	0.06
Asset to Equity (TA/TSE)	3.44	3.04	3.17	2.97	2.77	2.57	2.35	2.15	1.92	1.77	1.65	1.56	1.49
Profitability Ratios:													
Return on Equity (NI/Beg TSE)	34.37%	35.72%	-1.97%	17.18%	23.10%	26.90%	29.61%	31.29%	29.89%	27.17%	24.97%	23.18%	21.64%
Return on Assets (NI/TA)	5.1%	6.6%	7.9%	-0.6%	5.1%	7.0%	8.5%	9.9%	11.2%	12.1%	12.2%	12.2%	12.1%
Gross Profit Margin ((Sales-COGS)/Sales)	5.2%	5.9%	5.3%	2.4%	5.4%	7.3%	8.6%	9.9%	11.3%	12.8%	13.7%	14.5%	15.4%

Amazon.com*Present Value of Operating Lease Obligations*

Fiscal Years Ending Dec. 31	2016	2017	2018	2019
Year 1	1181.0	1317.0	2427.0	3127.0
Year 2	897.0	1231.0	2376.0	3070.0
Year 3	800.0	1106.0	2258.0	2775.0
Year 4	698.0	1030.0	2039.0	2473.0
Year 5	616.0	896.0	1813.0	2195.0
Thereafter	2325.0	3930.0	11935.0	10326.0
Total Minimum Payments	6517.0	9510.0	22848.0	23966.0
Less: Cumulative Interest	1196.9	1913.2	5483.5	4955.8
PV of Minimum Payments	5320.1	7596.8	17364.5	19010.2

Implied Interest in Year 1 Payment		263.3	376.0	859.5
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Pre-Tax Cost of Debt	4.95%	4.95%	4.95%	4.95%
Years Implied by Year 6 Payment	3.8	4.4	6.6	4.7
Expected Obligation in Year 6 & Beyond	616	896	1813	2195

Present Value of Lease Payments

PV of Year 1	1125.3	1254.9	2312.5	2979.5
PV of Year 2	814.4	1117.6	2157.2	2787.2
PV of Year 3	692.1	956.8	1953.3	2400.6
PV of Year 4	575.3	849.0	1680.7	2038.4
PV of Year 5	483.8	703.7	1423.9	1723.9
PV of 6 & beyond	1629.2	2714.8	7836.9	7080.5
Capitalized PV of Payments	5320.1	7596.8	17364.5	19010.2

Amazon.com*Effects of ESOP Exercise and Share Repurchases on Common Stock Account and Number of Shares Outstanding*

Number of Options Outstanding (shares):	3,840
Average Time to Maturity (years):	<u>1.10</u>
Expected Annual Number of Options Exercised:	3,491

Current Average Strike Price:	\$ 144.00
Cost of Equity:	10.55%
Current Stock Price:	\$137.63

Fiscal Years Ending Dec. 31	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Increase in Shares Outstanding:	3,491	349	0	0	0	0	0	0	0	0
Average Strike Price:	\$ 144.00	\$ 144.00	\$ 144.00	\$ 144.00	\$ 144.00	\$ 144.00	\$ 144.00	\$ 144.00	\$ 144.00	\$ 144.00
Increase in Common Stock Account:	5	1	-	-	-	-	-	-	-	-
Share Repurchases (\$)	-1,500	-1,545	-1,591	-1,639	-1,688	-1,739	-1,791	-1,845	-1,900	-1,957
Expected Price of Repurchased Shares:	\$ 137.63	\$ 152.16	\$ 168.21	\$ 185.97	\$ 205.59	\$ 227.29	\$ 251.28	\$ 277.80	\$ 307.12	\$ 339.53
Number of Shares Repurchased:	(11)	(10)	(9)	(9)	(8)	(8)	(7)	(7)	(6)	(6)
Shares Outstanding (beginning of the year)	10,189	13,669	14,008	13,998	13,990	13,981	13,974	13,967	13,960	13,954
Plus: Shares Issued Through ESOP	3,491	349	0	0	0	0	0	0	0	0
Less: Shares Repurchased in Treasury	(11)	(10)	(9)	(9)	(8)	(8)	(7)	(7)	(6)	(6)
Shares Outstanding (end of the year)	13,669	14,008	13,998	13,990	13,981	13,974	13,967	13,960	13,954	13,948

Amazon.com*Valuation of Options Granted under ESOP*

Current Stock Price	\$137.63
Risk Free Rate	4.32%
Current Dividend Yield	0.00%
Annualized St. Dev. of Stock Returns	37.33%

Range of Outstanding Options	Number of Shares	Average Exercise Price	Average Remaining Life (yrs)	B-S Option Price	Value of Options Granted
Range 1	384,000	144.00	1.10	\$ 21.49	\$ 8,253,052
Range 2					
Range 3					
Range 4					
Range 5					
Range 6				\$	-
Range 7				\$	-
Range 8				\$	-
Range 9				\$	-
Total	384,000	\$ 144.00	1.10	\$ 21.49	\$ 8,253,052