NASDAQGS **AMZN**

AMAZON.COM INC.

REGION **NORTH AMERICA**

INDUSTRY **INTERNET AND DIRECT MARKETING RETAIL**

OVERALL RATING FOR **1ST QUARTER 2024** **SELL**

OUR EVALUATION OF AMZN

Amazon.com Inc. is showing strong Earnings Quality and Balance Sheet Quality, but Valuation suggests a higher amount of price risk, and Cash Flow Quality and Operating Efficiency are both weak. When combined, AMZN deserves a SELL rating.

The primary reason the overall rating dropped during the last quarter was a decrease in the Operating Efficiency rating due to weakening turnover ratios. Another important factor in the downgraded overall rating was a declining Cash Flow Quality rating.

FINANCIAL SONAR™ FOR AMZN 1ST QUARTER 2024

HISTORICAL RATINGS

	Q2 2023	Q3 2023	Q4 2023	**Q1 2024**
OVERALL RATING	SELL	HOLD	HOLD	SELL
EARNINGS QUALITY	STRONG	STRONG	STRONGEST	STRONGEST
CASH FLOW QUALITY	WEAK	STRONG	STRONG	WEAK
OPERATING EFFICIENCY	STRONG	STRONG	STRONG	WEAKEST
BALANCE SHEET	STRONG	STRONG	STRONG	STRONG
VALUATION	MEDIUM RISK	MOST RISK	MOST RISK	MOST RISK

PRICE TRENDS AND VALUATION

Price (USD, AS OF 06/20/24)	**182.80**	MARKET CAP.	**1,902.4 BILLION**	PRICE/SALES	**3.3**
PRICE/EARNINGS	**62.2**	PRICE/EARNINGS GROWTH	**0.1**	PRICE/CASH FLOW	**49.4**
PRICE/ADJUSTED EARNINGS	**52.0**	PRICE/ADJUSTED EARNINGS GROWTH	**0.1**	PRICE/ADJUSTED CASH FLOW	**45.4**

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REGION **NORTH AMERICA** OVERALL RATING FOR **1ST QUARTER 2024** **SELL**

INDUSTRY **INTERNET AND DIRECT MARKETING RETAIL**

EARNINGS QUALITY: STRONGEST

Earnings quality has long been analyzed and used by investors as a measure of the fundamental quality of the company and its future prospects. Companies may be including certain items that increase reported earnings and often the amount of cash flow supporting the earnings may be weak. Jefferson adjusts for these kinds of items and other anomalies to produce an adjusted earnings number that more accurately reflects ongoing business fundamentals at Amazon.com Inc.. Reported earnings are compared to the Jefferson adjusted earnings as a means to gauge earnings quality. Also measured is the amount of cash flow that underpins earnings.

The earnings quality for AMZN remains STRONGEST.

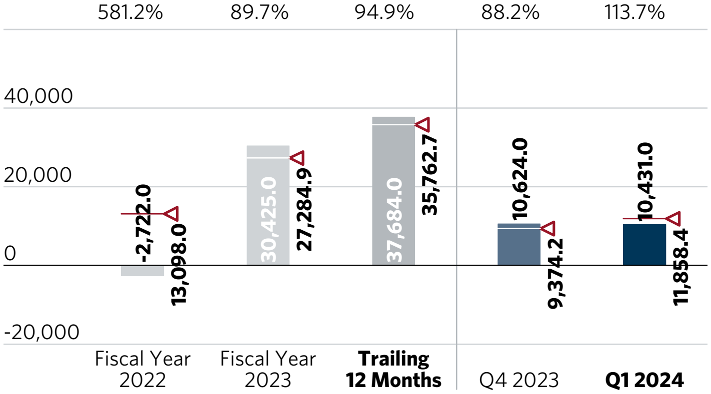
With an adjusted net income of 11,858M in the last quarter that was greater than the reported number, AMZN's quality of net income earnings is extremely high. However, operating cash flow decreased during the last quarter to 18,989M from 42,465M, and the ratio of operating cash flow to earnings has also declined. Though both Earnings Quality measures declined, the changes were not sufficient to lower the overall rating.

NET INCOME VS. ADJUSTED NET INCOME

IN MILLIONS

Δ Adjusted Net Income

Adjusted Net Income as a Percentage of Net Income

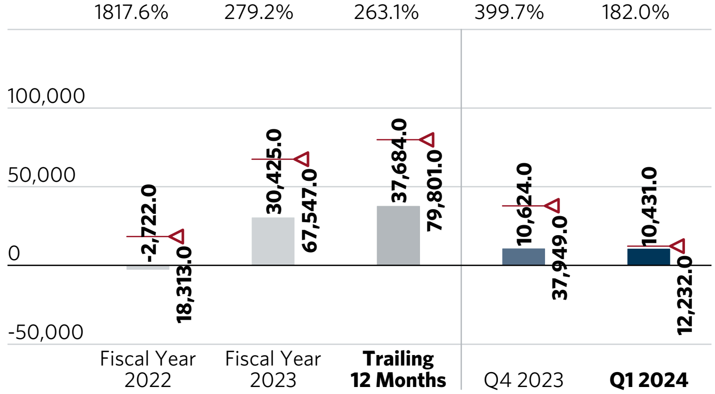


EARNINGS VS. OPERATING CASH FLOW

IN MILLIONS

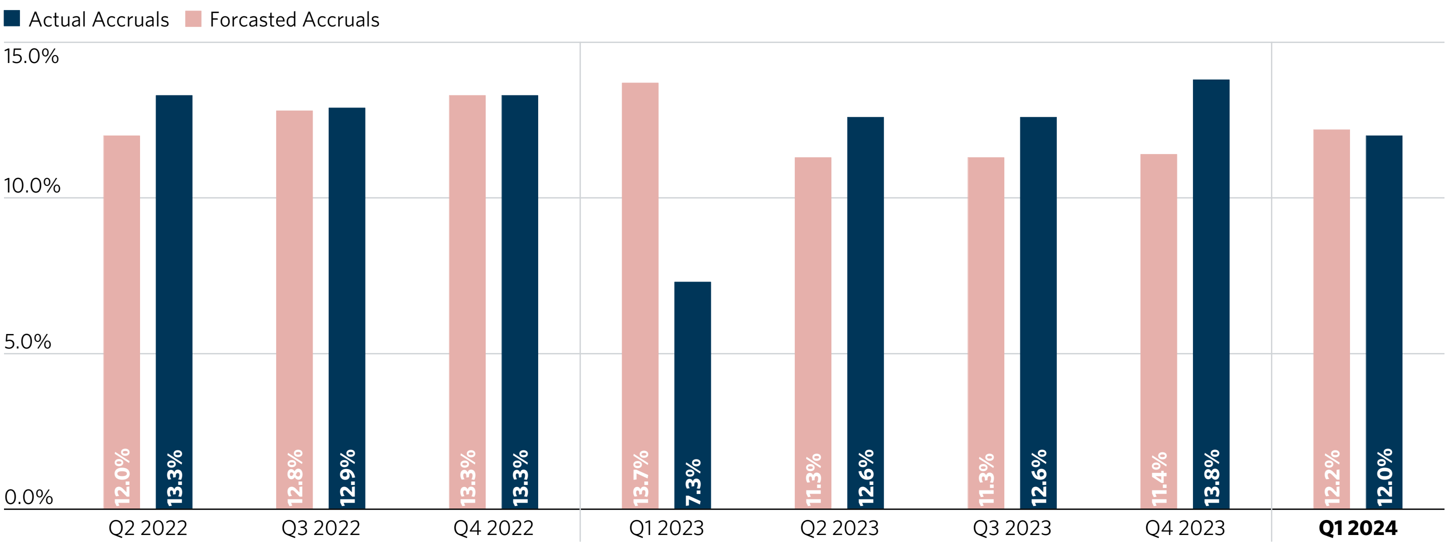
Δ Reported Operating Cash Flow

Operating Cash Flow as a Percentage of Earnings



ACCRUALS

% OF SALES



NASDAQGS **AMZN** | **AMAZON.COM INC.**

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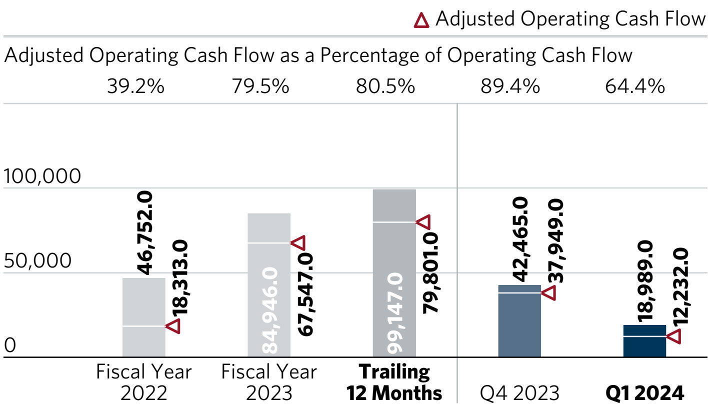
CASH FLOW QUALITY: WEAK

Cash flow is considered by many investors to be the ultimate measure of company performance and more reliable than reported earnings. The Jefferson measurement eliminates items that are not part of recurring cash flow or the result of actual operations for Amazon.com Inc.. These adjustments to cash flow provide a truer measure of cash flow and the resultant cash flow quality rating.

The cash flow quality rating for AMZN declined from STRONG to WEAK The quarterly operating cash flow quality declined with a reported number of 18,989M and an adjusted number that was 64.4% of reported. In addition, the quarterly free cash flow quality weakened with a reported number of 4,064M and an adjusted number that was 6,757M less than reported. Together these changes represent deterioration from the previous period when the ratio of reported to adjusted numbers was higher.

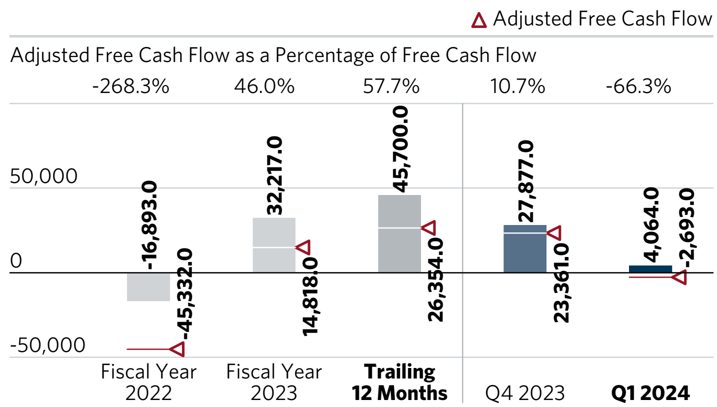
OPERATING CASH FLOW

IN MILLIONS

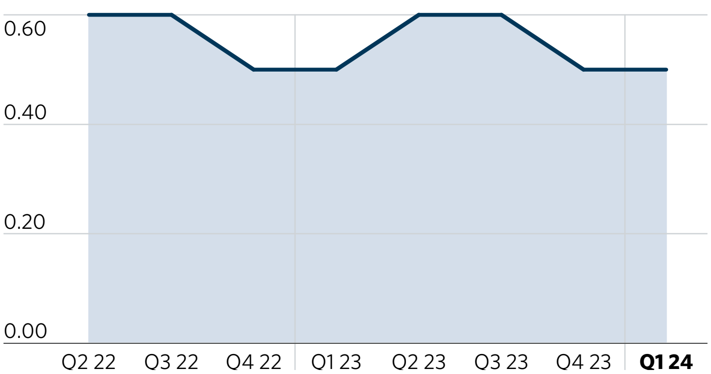


FREE CASH FLOW

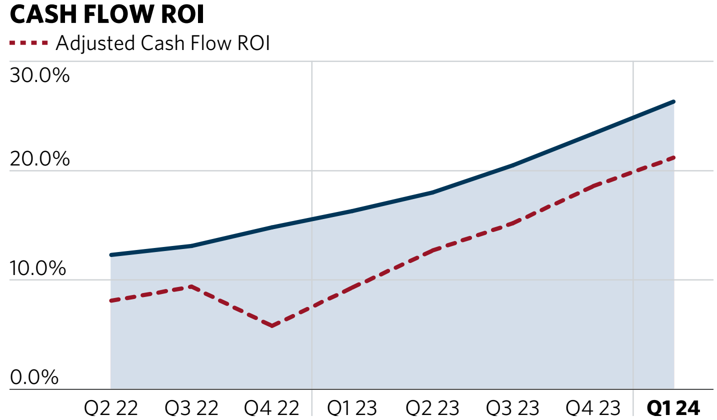
IN MILLIONS



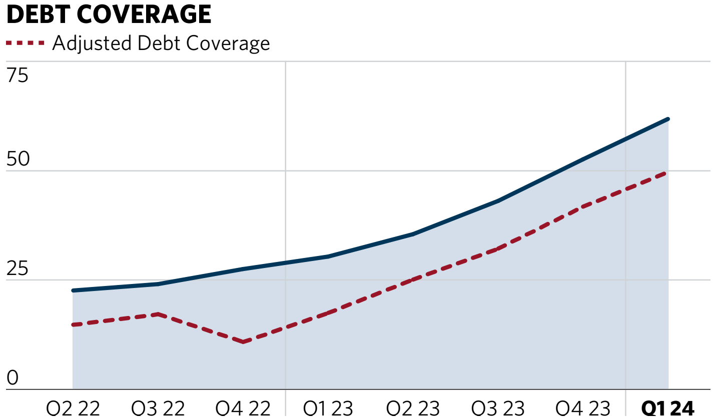
FLOW RATIO



CASH FLOW ROI



DEBT COVERAGE



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REGION **NORTH AMERICA** OVERALL RATING FOR **1ST QUARTER 2024** **SELL**

INDUSTRY **INTERNET AND DIRECT MARKETING RETAIL**

OPERATING EFFICIENCY: WEAKEST

The ability of Amazon.com Inc. to earn a profit is in part the result of how rapidly it converts its collection of assets into revenues and the resulting earnings and cash flow margins available. Operating Efficiency is measured by a combination of factors including: return on invested capital (ROIC), gross margin, EBIT margin, asset turnover, equity turnover, and lastly Staff, General, and Administrative costs as a percentage of sales (SGA).

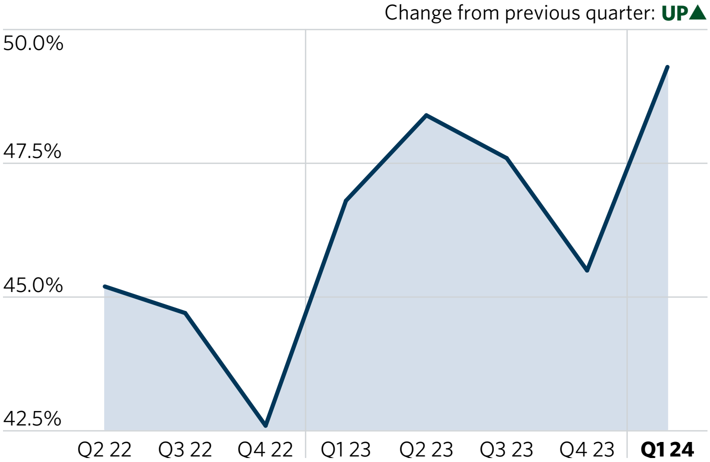
The operating efficiency rating for AMZN declined from STRONG to WEAKEST as the SGA costs, asset turnover, return on incremental investment capital and equity turnover deteriorated since the last quarter.

The SGA costs deteriorated from 19.2% to 26.6% of sales, the largest percentage decrease of the operating efficiency measures. The higher SGA costs indicate that AMZN has increased the amount of revenue devoted to overhead costs.

In addition, asset turnover deteriorated from 1.3X to 1.1X. The lower asset turnover indicates that AMZN is generating less revenues for each dollar of assets.

GROSS MARGIN

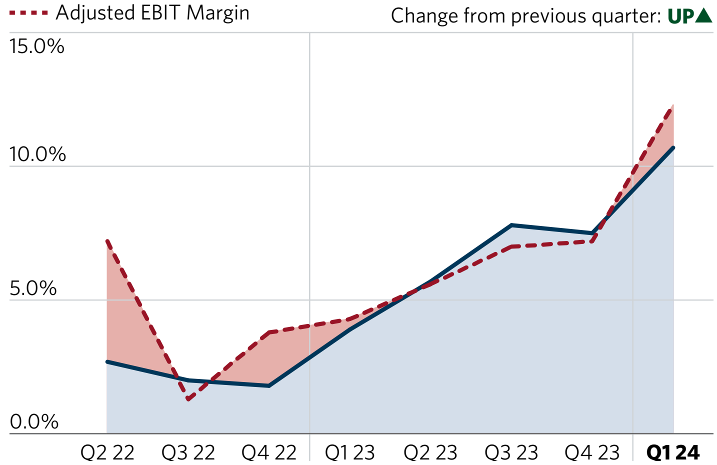
Change from previous quarter: **UP▲**



EBIT MARGIN

Adjusted EBIT Margin

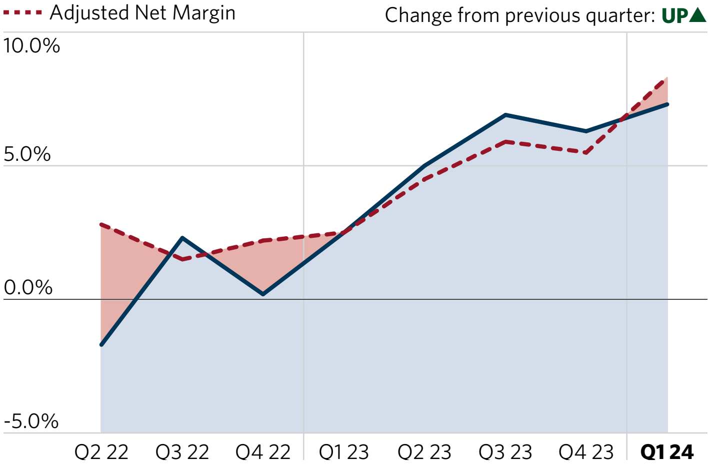
Change from previous quarter: **UP▲**



NET MARGIN

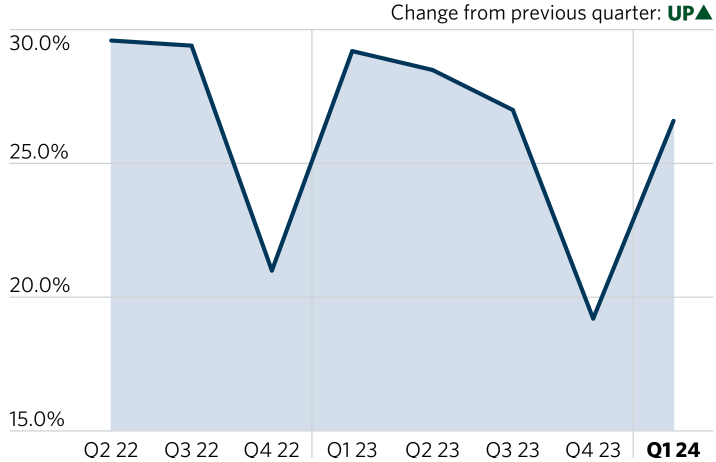
Adjusted Net Margin

Change from previous quarter: **UP▲**



SG&A AS A PERCENTAGE OF SALES

Change from previous quarter: **UP▲**



NASDAQGS **AMZN**

AMAZON.COM INC.

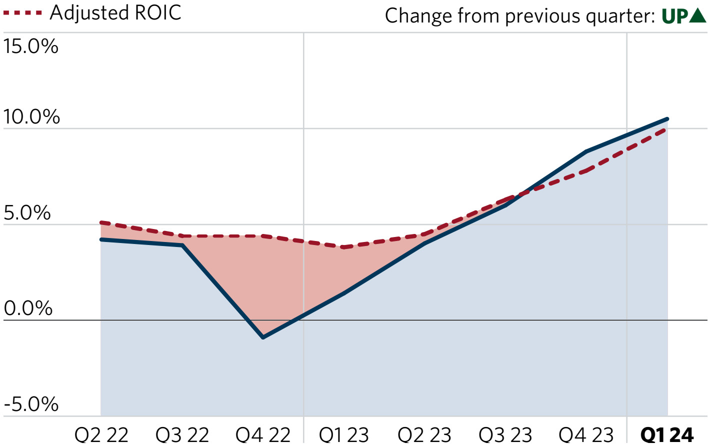
REGION **NORTH AMERICA**
INDUSTRY **INTERNET AND DIRECT MARKETING RETAIL**

OVERALL RATING FOR **1ST QUARTER 2024** **SELL**

OPERATING EFFICIENCY: WEAKEST

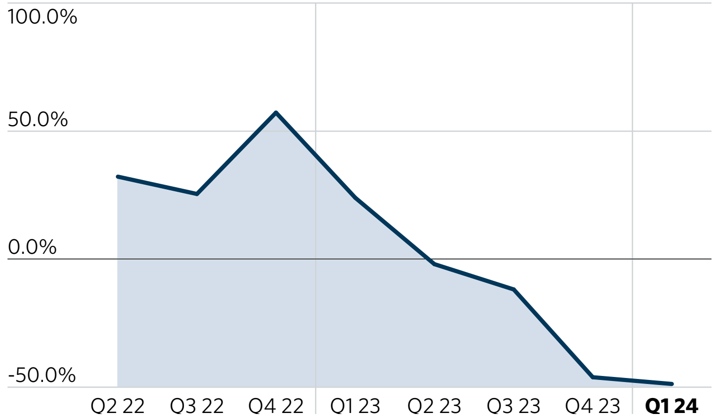
ROIC

Change from previous quarter: **UP▲**



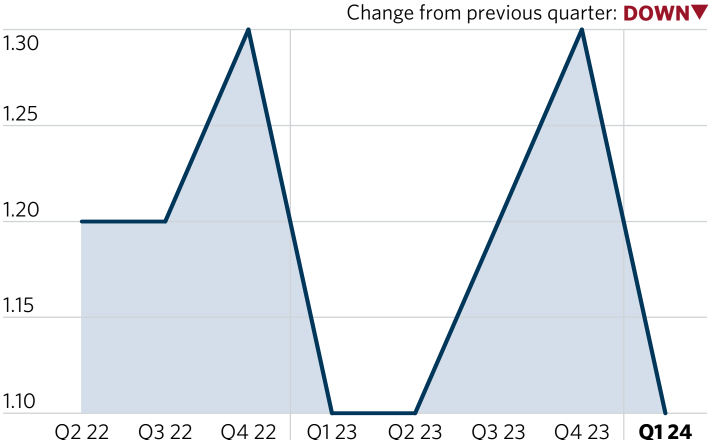
RETURN ON INCREMENTAL INVESTED CAPITAL

Change from previous quarter: **DOWN▼**



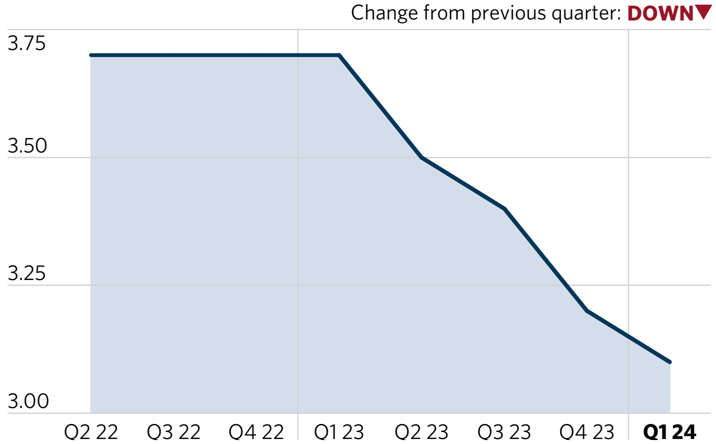
ASSET TURNOVER

Change from previous quarter: **DOWN▼**



EQUITY TURNOVER

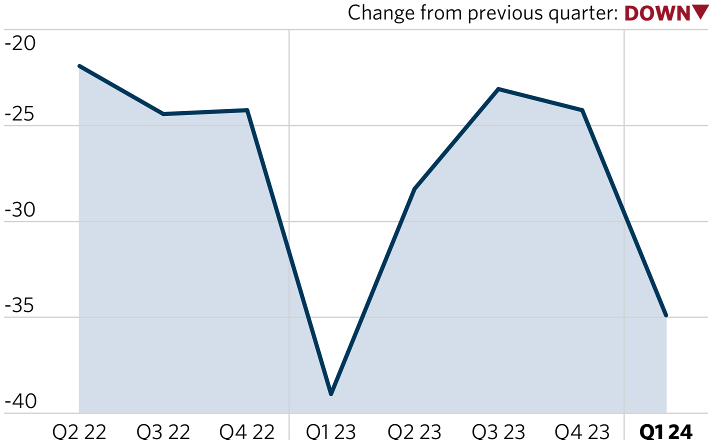
Change from previous quarter: **DOWN▼**



CASH CONVERSION CYCLE

IN DAYS

Change from previous quarter: **DOWN▼**



NASDAQGS **AMZN** — **AMAZON.COM INC.**

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INDUSTRY **INTERNET AND DIRECT MARKETING RETAIL**

BALANCE SHEET QUALITY: STRONG

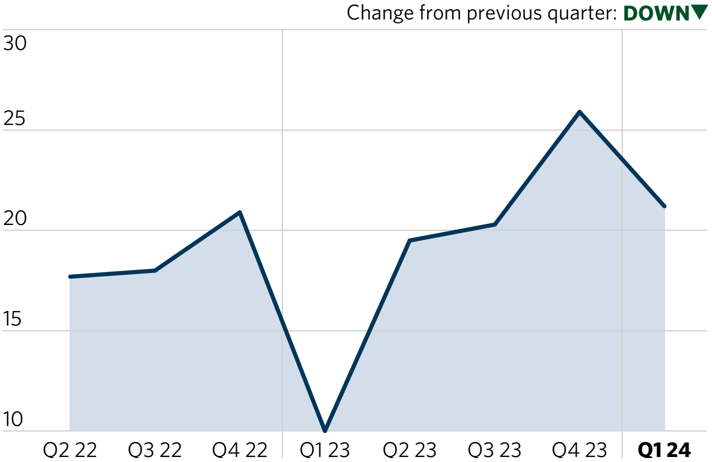
The balance sheet shows the ability of Amazon.com Inc. to pay its bills and fund future growth. It also provides clues to aggressive accounting since reported earnings that do not generate cash flow generally end up somewhere on the balance sheet. The following are analyzed in determining balance sheet quality: quick ratio, current ratio, cash position, accounts receivable days sales outstanding (AR DSOs), and number of days inventory is held prior to sale to customers (Inv Days).

The balance sheet rating for AMZN remains STRONG while the cash position weakened.

Even though AR DSOs improved from 25 to 21 days, the decline in cash offset this by falling from 86,780M to 85,074M. The lower amount of cash on hand indicates that AMZN will have a harder time meeting financial obligations.

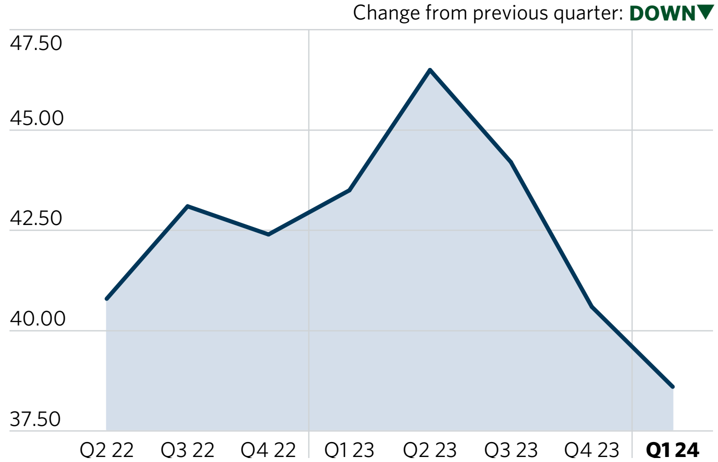
RECEIVABLES DAYS OUT

Change from previous quarter: **DOWN▼**



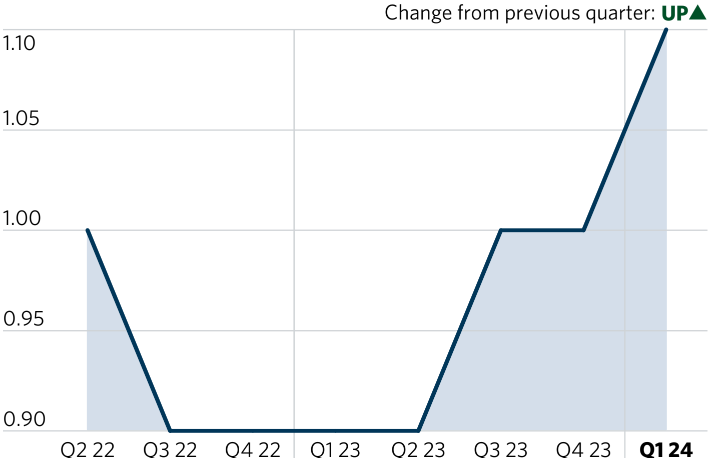
INVENTORY DAYS OUT

Change from previous quarter: **DOWN▼**

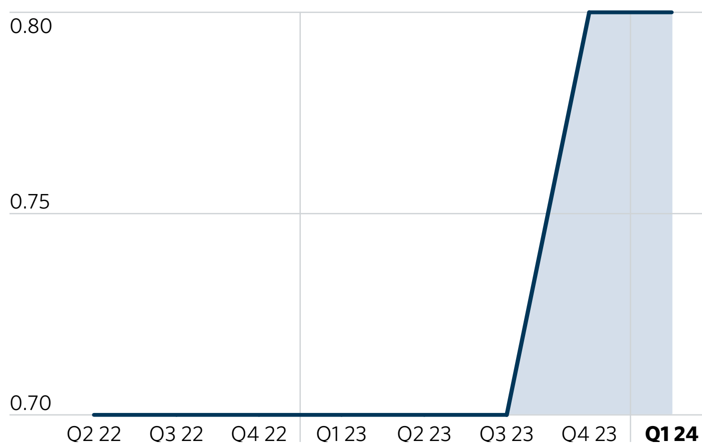


CURRENT RATIO

Change from previous quarter: **UP▲**



QUICK RATIO



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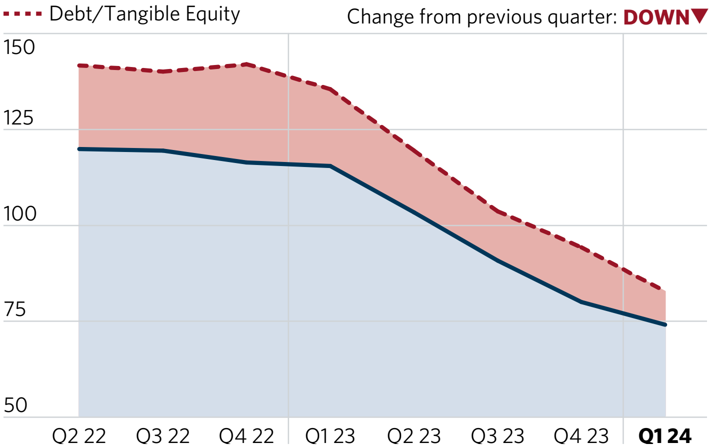
INDUSTRY **INTERNET AND DIRECT MARKETING RETAIL**

OVERALL RATING FOR **1ST QUARTER 2024** **SELL**

BALANCE SHEET QUALITY: STRONG

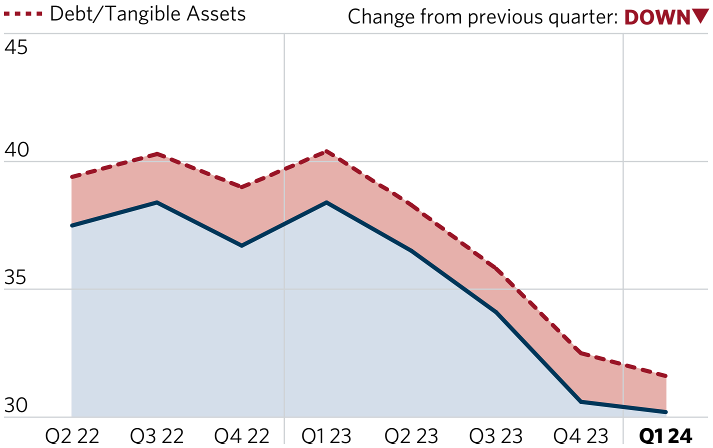
DEBT/EQUITY

Change from previous quarter: **DOWN▼**



DEBT/ASSETS

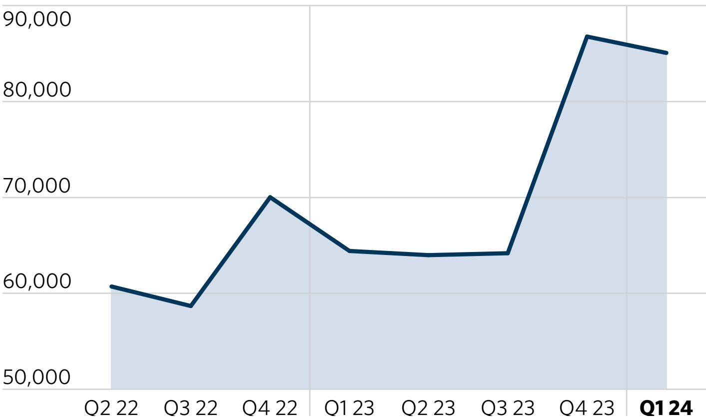
Change from previous quarter: **DOWN▼**



CASH

IN MILLIONS

Change from previous quarter: **DOWN▼**



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VALUATION: MOST RISK

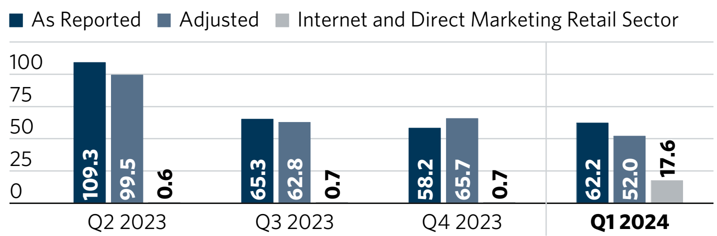
An unfavorable valuation (a MEDIUM RISK or MOST RISK rating) implies higher potential downward price risk that is evidenced by a company price multiple that is higher than the corresponding sector average. The valuation rating is based on both absolute and relative levels at Amazon.com Inc. compared to its peers within its sector based on price to earnings (PE), price to earnings growth (PEG), price to sales (PS), and price to cash flow (PCF).

The valuation rating for AMZN remains a MOST RISK as the price to cash flow and price to earnings ratios became more attractive over the last quarter while the PEG ratio became less attractive.

Even though AMZN's PCF ratio relative to the sector average PCF improved from 5.53X to 4.62X during the last quarter, the decline in the PS ratio relative to the sector average PS offset this by deteriorating from 3.88X to 4.13X.

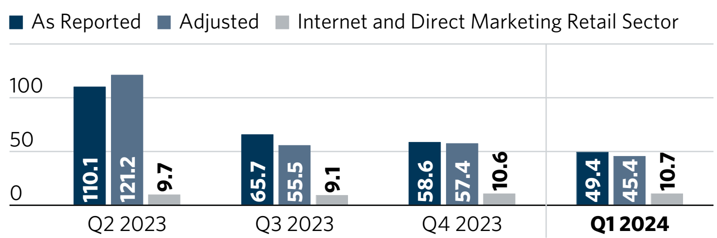
PRICE/EARNINGS

LAST 2 YEARS	RANGE LOW	RANGE HIGH	AVERAGE
Reported Price/Earnings	**-387.00**	**250.70**	**46.21**
Adjusted Price/Earnings	**52.00**	**99.50**	**79.21**
Sector Price/Earnings	**11.40**	**17.60**	**14.48**



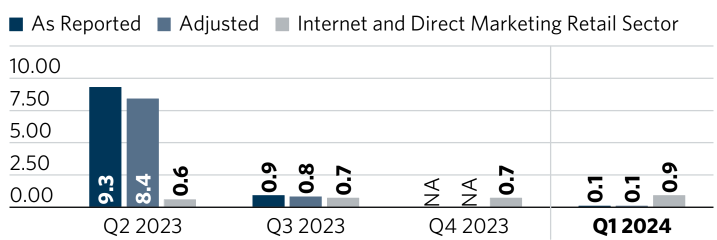
PRICE/CASH FLOW

LAST 2 YEARS	RANGE LOW	RANGE HIGH	AVERAGE
Reported Price/Cash Flow	**-389.00**	**251.90**	**44.78**
Adjusted Price/Cash Flow	**45.40**	**846.40**	**169.43**
Sector Price/Cash Flow	**8.70**	**10.70**	**9.55**



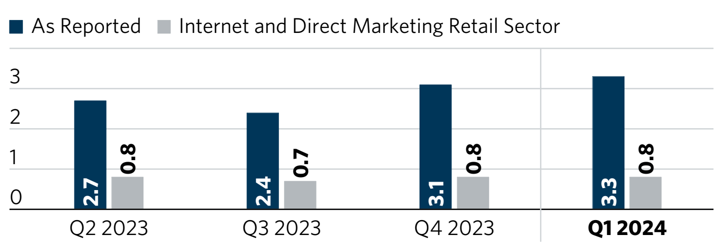
PRICE/EARNINGS GROWTH

LAST 2 YEARS	RANGE LOW	RANGE HIGH	AVERAGE
Reported Price/Earnings Growth	**0.10**	**9.30**	**3.43**
Adjusted Price/Earnings Growth	**0.10**	**8.40**	**3.10**
Sector Price/Earnings Growth	**0.30**	**0.90**	**0.54**



PRICE/SALES

LAST 2 YEARS	RANGE LOW	RANGE HIGH	AVERAGE
Reported Price/Sales	**2.10**	**3.30**	**2.58**
Sector Price/Sales	**0.70**	**0.80**	**0.74**



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INDUSTRY **INTERNET AND DIRECT MARKETING RETAIL**

PEER VALUATION COMPARISON

TICKER	COMPANY	MARKET CAP.	PRICE ON 06/20/24	PRICE/ EARNINGS	PRICE/ SALES	PRICE/ CASH FLOW	PRICE/ EARNINGS GROWTH	VALUATION RATING
AMZN	**Amazon.com Inc.**	**1,902.4 B**	**182.80**	**62.2**	**3.3**	**49.4**	**0.1**	**MOST RISK**
MELI	MercadoLibre Inc.	79.8 B	1,573.40	77.7	5.3	73.2	0.9	**MOST RISK**
EBAY	eBay Inc.	27.6 B	54.60	10.1	2.7	9.5	0.0	**LOW RISK**
EXPE	Expedia Group Inc.	16.5 B	124.50	25.9	1.5	9.4	0.2	**MOST RISK**
4755	Rakuten Inc.	1,770.2 B	825.30	NA	0.9	-5.9	NA	**MEDIUM RISK**
MMYT	MakeMyTrip Limited	9.0 B	82.30	155.8	10.6	13.0	NA	**MOST RISK**
3092	Start Today Co. Ltd.	1,160.8 B	3,909.00	28.0	5.8	24.0	2.3	**MOST RISK**
INTERNET AND DIRECT MARKETING RETAIL SECTOR		**27.4 B**	**—**	**17.6**	**0.8**	**10.7**	**0.9**	**—**

PEER OPERATING COMPARISON

TICKER	COMPANY	MARKET CAP.	GROSS MARGIN (%)	EBIT MARGIN (%)	NET MARGIN (%)	ROIC (%)	CASH CONVERSION CYCLE (DAYS)	OPERATING EFFICIENCY RATING
AMZN	**Amazon.com Inc.**	**1,902.4 B**	**49.3**	**10.7**	**7.3**	**10.5**	**-34.0**	**MOST RISK**
MELI	MercadoLibre Inc.	79.8 B	46.7	12.2	7.9	13.7	-41.0	**LOW RISK**
EBAY	eBay Inc.	27.6 B	72.6	26.9	17.1	18.7	NA	**MEDIUM RISK**
EXPE	Expedia Group Inc.	16.5 B	87.6	-1.5	-4.7	8.6	-161.0	**MOST RISK**
4755	Rakuten Inc.	1,770.2 B	-5.6	-6.5	-8.3	-5.0	NA	**LOW RISK**
MMYT	MakeMyTrip Limited	9.0 B	52.6	8.2	84.8	18.0	-73.0	**MEDIUM RISK**
3092	Start Today Co. Ltd.	1,160.8 B	92.7	29.2	24.0	43.9	179.0	**LOW RISK**

DEFINITIONS

Adjusted Net Income: Adjusted Net Income is a company's reported net income less adjustments for one-time and non-operating items yielding a more realistic picture of a company's ongoing earnings.

Accruals – Forecasted and Actual: The comparison of forecasted and actual accruals identifies a discretionary build not attributable to a company's sales growth, and could be a sign of poor earnings quality. For our purposes, the forecasted accrual component is an aggregate measurement of total accruals (short-term balance sheet accounts) that distinguishes between "normalized" and "extraordinary" accruals. The normalized accruals are based on historical relationships between sales and accruals and are dynamically adjusted over time to account for changes in the ratio between these two variables. Normally, short term accruals will grow as sales grow – i.e., the "normalized" measure. Discretionary accruals are the portion of accruals that are in excess of the base factor and therefore exceed the normal and are "extraordinary".

Adjusted Operating Cash Flow: Adjusted Operating Cash Flow is reported operating cash flow less adjustments for one-time and non-operating items yielding a more realistic picture of a company's ongoing cash flow from operations.

Adjusted Free Cash Flow: Adjusted Free Cash Flow is reported operating cash flow less adjustments for one-time, non-operating items and capital expenditures. This provides a more realistic picture of a company's ongoing cash generation from operations after capital investments.

Flow Ratio: The Flow Ratio is a measurement of management's effectiveness in managing its working capital to maximize the company's cash flows. The measure is a ratio of a company's non-cash current assets to its non-interest bearing short-term liabilities.– These non-cash assets include items such as accounts receivable (which are essentially interest-free loans to customers) and inventory (which is subject to obsolescence or spoilage). The non-interest bearing liabilities are essentially interest-free loans to the company. A lower ratio implies tighter cash management for a company as it has less cash tied up in non-cash current assets and is able to utilize interest free loans from suppliers.

Cash Flow Return on Investment: Cash Flow ROI is a measure of a company's ability to generate operating cash flow from its invested capital. Many analysts consider this measure preferable to an earnings return measure such as ROE since cash flow is considered a more reliable measure.

Adjusted Cash Flow Return on Investment: Adjusted Cash Flow ROI is a measure of the ability to generate operating cash flow from its investment in capital calculated using a company's adjusted cash flow.

Debt Coverage: Debt Coverage is a measure of a company's ability to cover its debt obligations with cash flow it generated from continuing operations.

Adjusted Debt Coverage: Adjusted Debt Coverage is a measure of a company's ability to cover its debt obligations with cash flow it generated from continuing operations, calculated using a company's adjusted cash flow.

Adjusted Return on Invested Capital: Adjusted ROIC assesses a company's efficiency at allocating the capital to profitable investments using a company's adjusted net income (see above) yielding a measure of how well a company is using its capital to generate returns.

Adjusted EBIT Margin: Adjusted EBIT Margin is a measure of a company's earnings before interest and income taxes less adjustments for one-time and non-operating items divided by a company's sales.

Adjusted Net Margin: Adjusted Net Margin is a measure of a company's net income less adjustments for one-time and non-operating items divided by a company's sales.

Return on Incremental Invested Capital: ROIIC measures the relationship between incremental investment and incremental net operating profit after tax. This provides a measure of the returns a company is earning on recent investments rather than all investments as measured by ROIC.

Cash Conversion Cycle: The Cash Conversion Cycle measures the number of days working capital is tied up from the date of purchase of raw materials until the collection of cash from the sale of the product.

Debt to Tangible Equity: Debt to Tangible Equity is a ratio of a company's debt to equity less adjustments for goodwill and other intangible assets yielding tangible equity.

Debt to Tangible Assets: Debt to Tangible Assets is a ratio of a company's debt to total assets less adjustments for goodwill and other intangible assets.

Price/Adjusted Earnings: Adjusted Price/Earnings is a relative valuation measure comparing a company's share price to its adjusted net income.

Price/Adjusted Cash Flow: Adjusted Price/Cash Flow is a relative valuation measure comparing a company's share price to its adjusted cash flow.

Price/Adjusted Earnings Growth: Adjusted Price/Earnings Growth is a relative valuation measure comparing a company's share price to its growth in adjusted earnings.

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OVERALL RATING FOR **1ST QUARTER 2024** **SELL**

INDUSTRY **INTERNET AND DIRECT MARKETING RETAIL**

ABOUT THE FINANCIAL SONAR™ REPORT & METHODOLOGY

The Jefferson Financial Sonar™ ratings system classifies companies into three categories: Buy, Hold and Sell. The Financial Sonar rating is the result of a point scoring system derived from the five main criteria. The more negative the rating, the more likely the overall rating will be a Sell. More positive criteria will support an Overall Rating of Buy.

Jefferson Research & Management has developed the Financial Sonar™ Rating System which is based upon five analytical criteria: Earnings Quality, Cash Flow, Operating Efficiency, Balance Sheet, and Valuation. The first four criteria are rated in one of four categories (best to worst): Strongest, Strong, Weak, Weakest. Valuation is also rated in one of four categories (best to worst): Least Risk, Low Risk, Medium Risk, Most Risk.

ABOUT JEFFERSON RESEARCH & MANAGEMENT

Jefferson Research & Management is an independent investment research and advisory firm founded in 1989 and based in Portland, Oregon. The firm has been providing fundamental research to institutional and individual clients for more than 20 years. Financial Sonar™ ratings are based on a proprietary rating system developed by Jefferson Research & Management that measures the changes in company fundamentals using information from financial statements.

DISCLAIMER