

Amazon.com

4Q Quick Preview: Street projecting acceleration for AWS, we see upside in 1Q

Maintain Rating: BUY | PO: 185.00 USD | Price: 157.75 USD

4Q Preview: AWS growth most important metric this Q

Amazon will report 4Q on 2/1; we are in line on revenue/above on EBIT at \$165.8bn/\$10.9bn vs. the Street at \$166.1bn/\$10.4bn. AWS (Amazon Web Service) growth is a top metric, and we expect in line to slightly-below Street revenue at \$24.2bn (13% Y/Y). Lapping cost optimization and A.I. (artificial intelligence)-driven demand are key drivers for AWS; we think it important for mgmt. to call out potential for 1Q acceleration (easy comps and less optimization pressure) on the call. Microsoft Azure growth (reports 1/30) is likely to impact AWS expectations ahead of results as well.

Expect 4Q retail to be a bright spot, advertising upside

BAC aggregated credit and debit card data indicates eCommerce sales growth in 4Q was stable vs. 3Q (vs. Street projecting 1pt decel) and Cyber Five data suggests AMZN gained share; we estimate 4Q revenues at \$167bn, above the Street at \$166bn. Expect normal q/q contraction in 4Q retail margins (we project 3.8% margins, -1.1pt q/q, +4.0pts y/y) driven by increased promotions, but we see margin upside from better capacity utilization and advertising, with GAAP operating profit likely at \$11-12bn vs. the Street at \$10.4bn. Long term, we see opportunity for N.A. retail margins to reach 7% (see [Amazon Advertising deep dive](#) for more thoughts on ad ramp and margin potential).

1Q Outlook: expect rev/profit of \$136-\$142bn/\$7.5-11.5B

For 1Q, we are at rev/op. profit of \$142.1bn/\$11.1bn, in line with the Street on revs. but above Street on profits (Street at \$9.1bn). With fewer q/q retail promotions, more retail efficiencies, select layoffs, AWS acceleration and Prime ad ramp, we are above the Street for 1Q margins. For guidance, we believe the 1Q'24 revenue range may be \$136-142bn (Street at \$142bn), and operating income guidance may be \$7.5-11.5bn (Street at \$9.1bn). We note Amazon has beat the high end of profit guide in all quarters throughout 2023, and a beat in 4Q could make the 1Q guide seem conservative.

Valuation still attractive for 2024; Maintain Buy

We think commentary indicating potential for 2024 AWS acceleration and continued y/y margin improvements will help frame a positive 2024 outlook, although sentiment is already quite positive (a risk). With drivers for AWS acceleration and margin upside in place, we think the stock is well positioned into 2024 at just 2.4x 2025E P/S, near the middle of its historical range of 0.8-4.0x since 2010. See our [2024 PM Level Outlook](#) for more on our 2024 outlook and positive view on the stock.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	4.12	1.19	4.72	6.52	7.78
GAAP EPS	3.24	(0.27)	2.74	3.78	4.58
EPS Change (YoY)	51.5%	-71.1%	296.6%	38.1%	19.3%
Consensus EPS (Bloomberg)			3.77	4.63	5.71
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	38.3x	132.6x	33.4x	24.2x	20.3x
GAAP P/E	48.7x	NM	57.6x	41.7x	34.4x
EV / EBITDA*	23.4x	22.6x	15.8x	13.0x	11.5x
Free Cash Flow Yield*	-0.6%	-0.7%	1.8%	1.0%	1.8%

* For full definitions of *IQmethod*SM measures, see page 12.

26 January 2024

Equity

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Stock Data

Price	157.75 USD
Price Objective	185.00 USD
Date Established	11-Jan-2024
Investment Opinion	B-1-9
52-Week Range	88.12 USD - 158.51 USD
Mrkt Val (mn) / Shares Out (mn)	1,604,475 USD / 10,171.0
Free Float	87.7%
Average Daily Value (mn)	7261.14 USD
BofA Ticker / Exchange	AMZN / NAS
Bloomberg / Reuters	AMZN US / AMZN.OQ
ROE (2023E)	28.6%
Net Dbt to Eqty (Dec-2022A)	62.5%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

N.A.: North America

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Timestamp: 26 January 2024 04:30AM EST

iQprofileSM Amazon.com

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	14.6%	6.0%	15.3%	17.6%	17.3%
Return on Equity	38.7%	9.1%	28.6%	29.5%	26.3%
Operating Margin	8.0%	6.4%	10.3%	12.8%	13.7%
Free Cash Flow	(9,069)	(11,569)	29,044	15,289	29,427

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.1x	3.8x	1.6x	1.0x	1.1x
Asset Replacement Ratio	1.6x	1.4x	1.0x	1.1x	1.2x
Tax Rate	12.7%	54.2%	17.9%	19.7%	20.1%
Net Debt-to-Equity Ratio	42.6%	62.5%	39.7%	12.8%	-11.0%
Interest Cover	20.8x	14.0x	17.9x	25.3x	30.2x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	469,822	513,983	570,669	637,255	710,719
% Change	21.7%	9.4%	11.0%	11.7%	11.5%
Gross Profit	197,478	225,152	265,610	302,766	342,566
% Change	29.3%	14.0%	18.0%	14.0%	13.1%
EBITDA	71,994	74,487	106,159	129,313	145,562
% Change	25.7%	3.5%	42.5%	21.8%	12.6%
Net Interest & Other Income	13,272	(18,184)	298	176	176
Net Income (Adjusted)	41,795	12,170	48,448	67,007	80,002
% Change	53.0%	-70.9%	298.1%	38.3%	19.4%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	32,877	(2,717)	28,117	38,871	47,108
Depreciation & Amortization	34,296	41,461	47,374	47,774	48,174
Change in Working Capital	(24,048)	(21,544)	(18,241)	(21,547)	(11,541)
Deferred Taxation Charge	(292)	(4,192)	(4,408)	16	16
Other Adjustments, Net	3,494	33,744	22,980	2,176	1,670
Capital Expenditure	(55,396)	(58,321)	(46,778)	(52,000)	(56,000)
Free Cash Flow	-9,069	-11,569	29,044	15,289	29,427
% Change	NM	-27.6%	NM	-47.4%	92.5%
Share / Issue Repurchase	0	10,230	(1,943)	5	9
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	17,346	13,678	(3,416)	(120)	(120)

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	85,722	70,026	81,991	125,286	196,763
Trade Receivables	32,891	42,360	51,596	59,303	68,398
Other Current Assets	32,640	34,405	39,048	59,656	67,260
Property, Plant & Equipment	153,820	186,715	195,935	200,161	207,987
Other Non-Current Assets	96,723	129,169	147,420	147,420	147,420
Total Assets	401,796	462,675	515,990	591,825	687,828
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	141,613	155,393	164,027	172,728	181,539
Long-Term Debt	137,798	161,239	158,646	158,596	158,546
Other Non-Current Liabilities	NA	NA	NA	NA	NA
Total Liabilities	279,411	316,632	322,673	331,324	340,085
Total Equity	122,385	146,043	193,317	260,501	347,743
Total Equity & Liabilities	401,796	462,675	515,990	591,825	687,828

* For full definitions of iQmethodSM measures, see page 12.

Company Sector

Internet/e-Commerce

Company Description

Amazon.com is one of the world's largest online retailers with a global brand and country specific sites in the U.S., UK, Germany, France, Japan, Canada, China, Spain, Italy, Mexico and India. Amazon also owns several other online retailers and online properties including Zappos.com, Diapers.com, Woot.com, Twitch.com and others. Amazon also operates Amazon Web Services (AWS), a leading cloud-based computing platform for developers and enterprises, and Whole Foods Markets.

Investment Rationale

Amazon is an eCommerce and cloud computing leader with higher market share and margin potential stemming from its global scale, fulfillment footprint and technology platform investments. We think Amazon's focus on the customers and the buyer experience is right for the Internet. We think Amazon is well positioned to capitalize on the global growth of eCommerce and other secular trends such as cloud computing, online advertising and connected devices.

Stock Data

Average Daily Volume 46,029,432

Quarterly Earnings Estimates

	2022	2023
Q1	-0.14A	0.73A
Q2	0.21A	1.18A
Q3	0.70A	1.46A
Q4	0.43A	1.35E

Key Metrics

Exhibit 1: Quarterly estimates vs. Street

For 4Q'23, we forecast revenue/EBIT of \$165.8bn/\$10.9bn vs. Street at \$166.1bn/\$10.4bn

Metric	BofA Est.	Consensus	BofA vs. Street	Comments
Amazon Unit Growth	9%	9%		Our model assumes 9% unit growth y/y (stable vs. 3Q on a 3pt easier comp). This represents 17% two-year stacked unit growth.
Amazon Total Revenue	\$165,845	\$166,059	\$214mn below	Our model assumes 11% y/y growth (1pt deceleration on a 6pt easier comp). Guidance is for \$160-\$167bn. We see upside potential to our and Street ests.
Gross Profit	\$72,972	\$74,627	\$1.7bn below	Our model assumes 15% y/y growth (a 5pt deceleration on a 2pt easier comp)
Gross Margin	44.0%	44.9%	-0.9% below	Our model assumes 140bps leverage y/y driven by a mix shift to 3P sales, advertising revenue growth, and AWS revenue growth.
North America Revenue	\$102,863	\$102,623	\$240mn above	Our estimate assumes 10% growth y/y (1pt deceleration on a 7pt easier comp) based on 11% North America Retail Revenue growth and 4% North America Whole Foods revenue growth.
International Revenue	\$38,910	\$38,845	\$66mn above	Our estimate assumes 13% y/y growth (3pt deceleration on a 3pt easier comp) or +11% y/y growth ex-FX (0pt acceleration on a 6pt easier ex-FX comp).
FX benefit/(drag)	\$620	\$484	\$136mn above	Our estimate of FX impact represents a 2% benefit to y/y International Revenue growth.
AWS Revenue	\$24,072	\$24,205	\$134mn below	We assume 12.6% y/y growth (relatively stable on a 7pt easier comp).
Advertising Services	\$14,331	\$14,130	\$201mn above	We assume 24% y/y growth (a 2pt deceleration on a 6pt easier comp).
GAAP Operating Income	\$10,920	\$10,368	\$552mn above	We assume 475bps of leverage y/y. Guidance is for \$7-11bn in op. income.
AWS Operating Income	\$7,101	\$6,653	\$1.3bn below	We assume 29.5% segment margin vs. Street at 27.5%.
EBITDA (\$)	\$29,356	\$29,028	\$327mn above	Our estimate assumes 317bps leverage y/y. EBITDA dollar growth is 35% y/y (24pt deceleration on a 19pt tougher comp).
GAAP Diluted EPS	\$0.84	\$0.80	\$0.04 above	GAAP Diluted EPS slightly above Street.
Non-GAAP EPS	\$1.35	\$1.08	\$0.27 above	EPS slightly above of the Street, though non-GAAP tax assumptions can vary widely
Capital Expenditures	\$11,998	\$13,911	\$1.9bn below	Capex primarily relates to fulfillment center, logistics and AWS infrastructure investment
Free Cash Flow	\$21,343	\$24,827		Free cash flow 55% y/y (428pt acceleration on a 196pt tougher comp).
Employees	1,541,000			Assumes flat y/y (3pt acceleration on a 9pt easier comp).

Source: Bloomberg, BofA Global Research estimates

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4Q Preview

Amazon will report 4Q on Thursday 2/1, after market close. Top metrics for the quarter (beyond headline revenues and GAAP operating profit) will be AWS' growth outlook following Azure's guide (MSFT reports Tues. 1/30), US retail margins (although we expect normal q/q contraction from increased promotional activity and a mix shift during the holidays), advertising revenue growth, AWS margins, units, and early commentary or data from Amazon's ad ramp on Prime Video or advertising partnerships. We think the best case for the quarter is a retail revenue and margin beat, with in-line AWS revenues and management commentary suggesting AWS is accelerating in 1Q and margins still have significant improvement ahead. Negative case would be an AWS miss vs. Street while Azure beats, and limited enthusiasm on 1Q acceleration, while retail is just in line with guidance for significant q/q margin declines in 1Q.

AWS growth will be top of mind for investors, with the Street at 13% y/y for 4Q, a 1pt acceleration vs. 3Q. We think Street AWS revenue for 4Q is a little aggressive at \$24.2bn in revenue (vs BofAe at \$24.07bn), as we would consider a strong quarter would represent \$950mn in q/q revenue growth (Street at more than \$1.1bn Q/Q). Looking forward, AWS results in 3Q'23 suggested a return to a more normalized pattern of q/q growth, making 1Q'24 Street ests seem conservative, as there is an expectation for a revenue drop of over \$50mn Q/Q. Potential acceleration drivers for AWS include pricing normalization and renewed workload volumes (mgmt. commentary on the 3Q call suggested strong contract signings in October and declining cost optimization headwinds), increasing GPU supply, and A.I. driven demand tailwinds.

For retail, BAC aggregated US credit and debit card data indicates eCommerce sales growth in 4Q was stable vs. 3Q (vs. Street projecting 1pt decel) and Cyber Five data suggests Amazon gained share; we therefore think 4Q revenues could come in at \$167bn, above the Street at \$166bn. Expect normal q/q contraction in 4Q retail margins (we project 3.8% margins, -1.1pt q/q, +4.0pts y/y) driven by increased promotions, but with better capacity utilization and advertising upside, we see potential for operating margin upside, and expect GAAP profit at \$11-12bn vs. the Street at \$10.4bn. Long term, we see the opportunity for Amazon's N.A. retail margin to reach 7%.

Recent Bull/Bear highlights above-Street expectations in 2024

In our recent [Bull/Bear debate](#) (see report) top topics included: (1) AWS revenue drivers and quarterly cadence; (2) N.A. retail margin drivers and investor expectations; (3) potential headwinds to retail margin expansion in 2024; and (4) advertising opportunity. We also received feedback from investors on expectations for '24 peak quarterly AWS growth and N.A. retail margins: (1) investor feedback suggested peak quarterly AWS growth expectations close to 18% y/y in 2H'24, above our projected 17% y/y growth in 4Q'24 that assumes more normalized q/q revenue dollar additions in 2024; and (2) feedback suggests full year 2024 N.A. retail margins at 5.7% (range of 4.1-8.0%), which compares to the Street at 4.8%. See our recent [PM Level Outlook note](#) for a detailed review of key 2024 drivers, bull and bear cases, and upside/downside valuation scenarios.

Positives for the quarter could include: (1) commentary suggesting favorable AWS outlook in 2024 on easier comps and incremental A.I. workloads; (2) less q/q contraction in N.A. retail margins than expected; (3) accelerating y/y unit growth highlighting consumer resilience; (4) beat in high-margin advertising revenues (Street at \$14.1bn); and (5) potential for higher GAAP EPS estimates on higher margin outlook (we see potential for N.A. operating margins at 7%).

Risks for the quarter could include: (1) high expectations, with possible buy-side expectations for Amazon potentially at revenue of \$168bn and profit at \$11.8bn, (2) lower than expected AWS dollars added on a q/q basis indicating continued optimization headwinds; (3) limited y/y AWS leverage on structurally lower pricing and A.I.

investments; and (4) retail margin improvement slowed by heavy 4Q promotions and Amazon's 250k holiday hiring.

1Q Outlook & BofA vs. Street

For 1Q, based on historical trends and our outlook for 2024, we believe Amazon's 1Q revenue guidance range may be \$136bn to \$142bn and GAAP op. income guidance may be \$7.5bn to \$11.5bn (vs. the Street at \$142.1bn and \$9.1bn, respectively). We expect fewer Q/Q retail promotions, more retail efficiencies, select layoffs (limited RIF so far this year but across multiple units including Prime Video, MGM, Twitch, Audible Amazon Pay, and Buy with Prime), AWS acceleration and Prime Video ad ramp, we are above Street for 1Q margins. See page 9 for historical guidance data and our outlook.

For 4Q'23, we forecast revenue/EBIT of \$165.8bn/\$10.9bn vs. the Street at \$166.1bn/\$10.4bn. For 2024, we forecast revenue/GAAP profit of \$637.3bn/\$50.0bn vs. the Street at \$637.3bn/\$48.6bn. We are well above of the Street on 1Q profit.

Exhibit 2: BofA vs. Street

For 4Q'23, we forecast revenue/EBIT of \$165.8bn/\$10.9bn vs. Street at \$166.1bn/\$10.4bn

	4Q'23	1Q'24	2023	2024	2025
Revenue					
BofA est.	\$165,845	\$142,107	\$570,669	\$637,255	\$710,719
Growth Y/Y%	11%	12%	11%	12%	12%
Street	\$166,061	\$142,048	\$570,723	\$637,267	\$713,611
BofA vs. Street	0.1% Below	0.0% Above	0.0% Below	0.0% Below	0.4% Below
GAAP Operating Profit					
BofA est.	\$10,920	\$11,196	\$34,563	\$50,017	\$62,046
Street	\$10,413	\$9,109	\$34,033	\$48,613	\$63,661
BofA vs. Street	5% Above	23% Above	2% Above	3% Above	3% Below
GAAP EPS					
BofA est.	\$0.84	\$0.86	\$2.74	\$3.78	\$4.58
Street	\$0.80	\$0.72	\$2.70	\$3.74	\$5.01
BofA vs. Street	5% Above	20% Above	2% Above	1% Above	8% Below

Source: Bloomberg, BofA Global Research estimates

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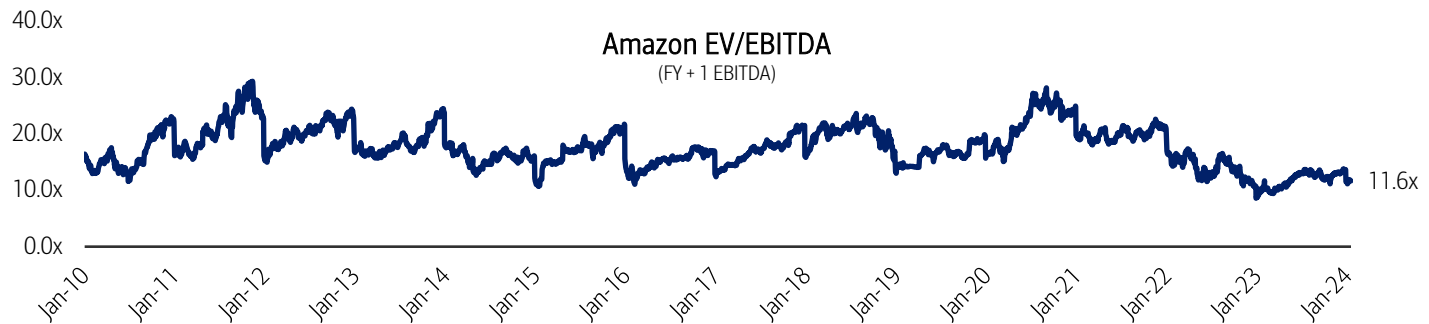
Valuation

Despite multiple expansion driving much of the stock appreciation in 2023 (with the fwd P/S multiple now at 2.4x vs. 1.7x at the start of 2023), we think the stock is attractively positioned into 2024 with retail margins still having room for upside and AWS poised to accelerate. Furthermore, higher expected exposure to interest rate moves (higher P/E stock with consumer spending exposure) make Amazon potentially more of a "risk on" stock than large cap peers Alphabet and Meta, in our view.

The stock is trading at 2.4x 2025 Price/Sales, near the middle of its historical range of 0.8x-4.0x since '10. On an EV/EBITDA basis, the stock is trading at 11.6x vs. a range of 8.5x-30x (and median of 17.6x). However, while attractive on a Sales and EBITDA basis, we think Amazon is getting close to a P/E valuation framework given improving retail margins, in which case the stock is relatively expensive at 31x 2025 Street GAAP EPS.

Exhibit 3: Amazon forward EV/EBITDA

Amazon is currently trading at 11.6x vs. a range of 8.5x-30x (and median of 17.6x) since 2010



Source: Bloomberg, BofA Global Research

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AWS: Expect commentary on optimizations, AI, GPUs

We look for 4Q call commentary suggesting acceleration in 1Q AWS growth given favorable set up and large growth gap to Azure that management should address. We expect mgmt. to continue to provide commentary on the “gigantic” opportunity ahead in A.I., potentially quantifying incremental A.I. driven growth. We expect some contribution to growth for AWS in 2024 due to A.I., and although the magnitude is uncertain, CEO Andy Jassy has said incremental A.I. growth in 3Q’23 was comparable to peers (presumably Azure on a dollar basis). Microsoft and Google have been perceived as A.I. leaders, so we expect mgmt. commentary to underscore advantages in hardware, and any progress with Trainium and Inferentia chips (which have been adopted by key customers including Anthropic). This could be underappreciated by the Street, especially given the industry-wide shortage of NVIDIA GPUs.

Street estimates: AWS Growth & Margin projections seem conservative

In Q3, AWS revenue grew 12%, and the Street projects acceleration to 13% in Q4. We think Street AWS revenue for 4Q is a little aggressive at \$24.2bn in revenue (vs BofAe at \$24.07bn), and would consider a strong quarter would represent \$950mn in q/q revenue growth. We were encouraged with +\$920mn Q/Q revenue dollar growth in 3Q’23 exceeding the \$840mn Q/Q growth in the prior year (3Q’23) and beating Street ests., we think that AWS is returning to a normalized growth pattern for Q/Q revenues. 1Q’24 Street ests seem conservative, with expectation for revenue to decline Q/Q by \$50mn to \$24.15bn (per Visible Alpha). Investor feedback from our recent Bull/Bear suggested peak quarterly AWS growth expectations close to 18% y/y in 2H’24, well above the Street at 16%.

AWS Margins are steadily improving and likely to remain strong y/y, in our view, driven by headcount reduction that started in Q2’23 along with reduced hiring rates, which we expect to last well into 2024. Margin improvement may also be aided by lower energy prices (especially natural gas). After reaching a 30% AWS Operating margin in 3Q’23, the Street projects AWS margins to decline and remain below 30% through 2025 (per Bloomberg, see table below), which we view as conservative.

Exhibit 4: Street AWS Model

Street projects 13% Y/Y growth for AWS in 1Q’24, with margin remaining below 30%

AWS Model (\$mn)	2019A	2020A	2021A	2022A	1Q23A	2Q23A	3Q23A	4Q23E	2023E	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E	2026E
Street AWS Revenue	35,026	45,370	62,202	80,096	21,354	22,140	23,059	24,205	90,054	24,154	25,308	26,517	27,966	103,945	123,199	147,970
Q/Q \$ Growth					(24)	786	919	1,146		(51)	1,154	1,209	1,448			
Y/Y Growth	37%	30%	37%	29%	16%	12%	12%	13%	12%	13%	14%	15%	16%	15%	19%	20%
AWS Profit (\$mn)	2019A	2020A	2021A	2022A	1Q23A	2Q23A	3Q23A	4Q23E	2023E	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E	2026E
AWS Operating Income	9,201	13,531	18,532	22,841	5,123	5,365	6,976	6,653	23,772	6,654	7,033	7,679	7,736	29,102	35,857	42,776
Margin	26%	30%	30%	29%	24%	24%	30%	27%	26%	28%	28%	29%	28%	28%	29%	29%

Exhibit 4: Street AWS Model

Street projects 13% Y/Y growth for AWS in 1Q'24, with margin remaining below 30%

Y/Y Change	-2.2%	3.6%	0.0%	-1.3%	-11.4%	-4.7%	3.9%	3.1%	-2.1%	3.6%	3.6%	-1.3%	0.2%	1.6%	1.1%	
AWS Backlog	2019A	2020A	2021A	2022A	1Q23A	2Q23A	3Q23A	4Q23E	2023E	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E	2026E
Backlog	29,800	50,000	80,400	110,400	122,000	132,100	133,000	138,000	138,000	150,100	159,800	160,900	165,600	165,600	197,100	226,700
y/y growth	54%	68%	61%	37%	37%	32%	28%	25%	25%	23%	21%	21%	20%	20%	19%	15%

Source: BofA Global Research estimates, company reports, Bloomberg

BofA GLOBAL RESEARCH

Retail: Spending data generally constructive

Online spending was up 1% y/y in 4Q'23 per BAC Card Data

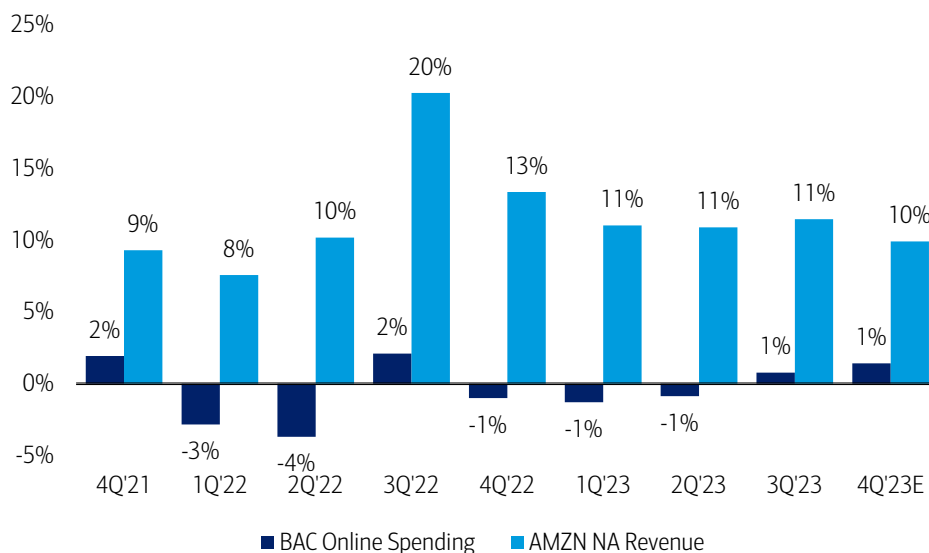
For 4Q'23, BAC aggregated credit and debit card data indicates eCommerce spending increased 1% y/y, stable vs. 3Q but ahead of 1H'23, which had declined 1% y/y. Online penetration in 4Q increased to 28.8%, 60bps y/y (an improvement from 40bps y/y in 3Q), as reopening headwinds continue to fade. We continue to believe Online spending in 2024 will benefit from lower inflation and a shift back to goods, with Online penetration expanding at a normalized rate of approx. 100bps annually. See our [2024 eCommerce Year Ahead](#) for more.

For Amazon, the Street projects 10% y/y North America revenue growth in 4Q'23, 1pt decel vs. 3Q, while BAC aggregated card data suggesting stable growth in 4Q. Industry sales also increased 16% Q/Q in 4Q, 1pt more than last year, and with Amazon's Black Friday release suggesting share gains (see [Black Friday eCommerce note here](#)), and very strong 4Q advertising spend checks, we think Amazon's N.A. retail sales can beat 4Q ests.

See the [BofA on USA](#) note for an explanation of the methodology, disclaimers and limitations with BAC aggregated credit and debit card data.

Exhibit 5: Y/Y change in Online* spending per BAC aggregated card data vs. Amazon N.A. revenue

Online spending increased 1% y/y in 4Q, according to BAC aggregated card data



Source: BAC internal data, Company reports, Bloomberg, BofA Global Research | 4Q'23 Street estimates

**Note: Card not present is largely online but could include purchases made over the phone

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Bloomberg Second Measure observed sales decelerate 1pt

Bloomberg Second Measure credit and debit card data indicates observed sales grew 4% y/y, suggesting a 1pt decel vs. 3Q (in line with Street N.A. estimates). Data suggesting Amazon continues gaining share suggest Bloomberg Second Measure data is conservative, in our view, and we think Amazon will likely beat consensus N.A. estimates.

Strong advertising channel checks

We hosted calls with Kenshoo and Ben Legg on 4Q ad spending and both suggested y/y ad spending growth in Amazon's marketplace accelerated in 4Q. Our model has 24% ad growth in 4Q vs. 26% in 3Q, and we think 30%+ is possible. Ad growth will also benefit from Prime video advertising, which is expected to start to ramp in Feb '24.

Guidance history and our outlook

Revenue guidance – historically conservative in 1Q

During the last three years, the midpoint of Amazon's 1Q revenue guidance has been an average of 17% below 4Q reported revenue. Based on our 4Q outlook and recent guidance history, we expect a 1Q revenue guide midpoint around \$139bn (-17% q/q).

Based on a range of revenue guidance of \$6bn, we believe Amazon's 1Q revenue guidance range may be \$136bn to \$142bn. Amazon's actual 1Q revenue results beat the midpoint of guidance by 3.4% over the last three years and, despite being on the high end of our estimated 1Q guidance, we think the Street's revenue est. of \$142bn is achievable given AWS reacceleration, advertising strength and growing share in eCommerce.

Operating income guidance suggests 1Q profit down marginally vs. 4Q

1Q has been Amazon's seasonally strongest margin quarter in recent years, though 1Q guidance carries significant conservatism. During the last three years, the midpoint of Amazon's 1Q Operating Income guidance has been an average of \$600mn below 4Q operating income, but based on significant y/y US retail margin expansion, AWS margin improvement, and increasing ad ramp, we think there could be less q/q contraction this year (while still showing some conservatism). **Assuming a range of \$4bn, we believe 1Q Operating Income guidance may be \$7.5bn to \$11.5bn.** The Street is at \$9.1bn in 1Q operating income, which is in line with the midpoint of our range, but we are above the Street at \$11.1bn. We see upside to Street numbers given profit drivers like the Prime advertising ramp, further efficiencies in regionalized network, and higher consumer/3P fees. Amazon's actual 1Q Operating Income results for the last three years beat the midpoint of guidance by an average of \$2bn.

Exhibit 6: Guidance analysis

We believe Amazon's 1Q revenue guidance range may be \$136.0bn to \$142.0bn, with profit of \$7.5B-\$11.5B

4Q Guidance Analysis	4Q18A	1Q19A	4Q19A	1Q20A	4Q20A	1Q21A	4Q21A	1Q22A	4Q22A	1Q23A	4Q23E	1Q24E
Revenue	\$72,383	\$59,700	\$87,437	\$75,452	\$125,555	\$108,518	\$137,412	\$116,444	\$149,204	\$127,358	\$166,061	\$142,048*
q/q Actual		-18%		-14%		-14%		-15%		-15%		
Guidance Midpoint	\$69,500	\$58,000	\$83,250	\$71,000	\$116,500	\$103,000	\$135,000	\$114,500	\$144,000	\$123,500	\$163,500	
q/q guidance		-20%		-19%		-18%		-17%		-17%		
Guidance Range		\$4,000		\$4,000		\$6,000		\$5,000		\$5,000		
Actual v. Midpoint		\$1,700		\$4,452		\$5,518		\$1,944		\$3,858		
Actual vs. Midpoint (%)		3%		6%		5%		2%		3%		
GAAP Operating Income	\$3,786	\$4,420	\$3,879	\$3,989	\$6,873	\$8,865	\$3,460	\$3,669	\$2,737	\$4,774	\$10,413	\$9,109*
q/q Actual		17%		3%		29%		6%		74%		
Operating Margin	5.2%	7.4%	4.4%	5.3%	5.5%	8.2%	2.5%	3.2%	1.8%	3.7%	6.3%	
Guidance Midpoint		\$2,750		\$3,600		\$4,750		\$4,500		\$2,000		
q/q guidance (\$)		-\$1,036		-\$279		-\$2,123		\$1,040		-\$737		
q/q guidance (%)		-27%		-7%		-31%		30%		-27%		
Guidance Range		\$1,100		\$1,200		\$3,500		\$3,000		\$4,000		
Actual v. Midpoint		\$1,670		\$389		\$4,115		-\$831		\$2,774		

Source: Company reports Bloomberg, BofA Global Research estimates

*Street estimates per Bloomberg

Exhibit 6: Guidance analysis

We believe Amazon's 1Q revenue guidance range may be \$136.0bn to \$142.0bn, with profit of \$7.5B-\$11.5B

4Q Guidance Analysis	4Q18A	1Q19A	4Q19A	1Q20A	4Q20A	1Q21A	4Q21A	1Q22A	4Q22A	1Q23A	4Q23E	1Q24E
BofA GLOBAL RESEARCH												



Expect bigger FX tailwind vs. ests. in 4Q

Companies with large int'l operations, which convert foreign currency denominated revenues and profits to US\$, will likely face a modest tailwind from FX translation in 4Q'23. For 4Q, we project AMZN will generate approx. 25% of revenue internationally, and we estimate that Amazon has roughly 10% Euro exposure, 6% GBP exposure, and 5% Yen exposure. On a y/y basis, the Euro increased 5.4% y/y vs. the US\$ in 4Q, the GBP was 5.8% vs. the US, the Yen declined 4.5% and other currencies were 3.2%.

Since Amazon reported 3Q earnings on 10/26, the Euro is up about 300bps, while the GBP is up about 420bps and the Yen is up by about 220bps, which we est. represents an 80bps incremental tailwind to total revenue. Mgmt. guided to a 40bps tailwind to total revenue due to FX in 4Q, and Street projects only 30bps tailwind, so there could be modest upside to International revenue due to a larger-than-expected FX benefit.

Exhibit 7: Expected Y/Y% change in spot rates

For 4Q, Street projects a 30bps FX tailwind to Amazon's total revenue growth

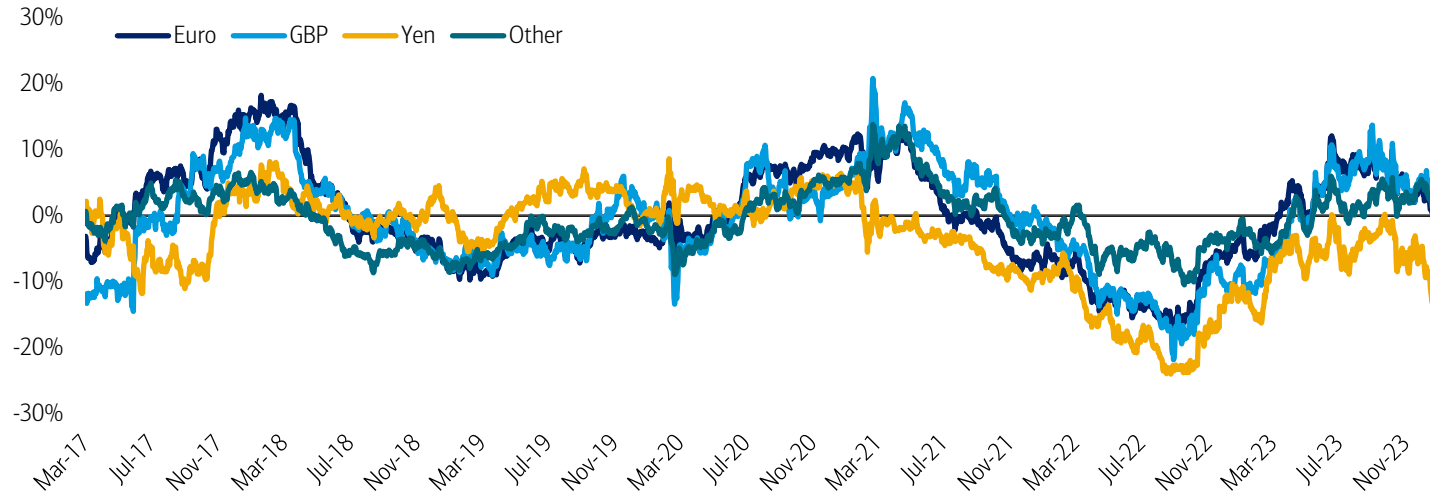
	Average Spot Rates					Expected Y/Y Change					Expected Q/Q Change			
	Euro	GBP	Yen	Other		Euro	GBP	Yen	Other		Euro	GBP	Yen	Other
3Q23A	1.088	1.266	0.007	0.289	3Q23A	8%	8%	-4%	2%	3Q23A	0%	1%	-5%	0%
4Q23A	1.077	1.242	0.007	0.287	4Q23A	5%	6%	-4%	3%	4Q23A	-1%	-2%	-2%	-1%
1Q24TD	1.095	1.271	0.007	0.295	1Q24TD	2%	5%	-8%	3%	1Q24TD	2%	2%	2%	3%
2Q24E	1.095	1.271	0.007	0.295	2Q24E	1%	2%	-5%	2%	2Q24E	-	-	-	-
3Q24E	1.095	1.271	0.007	0.295	3Q24E	1%	0%	0%	2%	3Q24E	-	-	-	-
4Q24E	1.095	1.271	0.007	0.295	4Q24E	2%	2%	2%	3%	4Q24E	-	-	-	-

Source: Bloomberg, BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 8: Y/Y change in exchange rates

In 4Q, the Euro increased 5.4% y/y vs. the US\$, the GBP was 5.8% vs. the US, the Yen declined 4.5%



Source: Bloomberg, BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Amazon.com (AMZN)

Our PO of \$185 is based on our SOTP analysis that values the 1P retail business at 1.0x 2025E Revenue (including subscription/Prime membership fees), 3P retail business at 2.5x 2025E Revenue, AWS at 7.5x 2025 Sales, and the advertising business at 4.0x 2025 Sales. For 2025E, our 7.5x AWS multiple is relatively below our SaaS comps at 8.4x, our 1.0x GMV multiple is a discount to our retail comps at 1.1x, and our 4.0x advertising multiple is a discount to our digital advertising comps at 5.3x. We think some conglomerate discount is warranted given current elevated regulatory/antitrust risk, but long-term we believe that in-line multiples are possible given growth rates in-excess of peers. Our PO of \$185 for Amazon implies 2.8x P/Sales, a multiple in the upper half of Amazon's historical range of 1.0-3.5x.

Downside risks to our price objective are increasing competition from offline and local retailers, elevated P/E multiple, AWS investments and/or price cuts and regulatory pressure on the 3P marketplace. The stock has been subject to heavy volatility in the past, based on margin trends, and this volatility could increase due to economic uncertainty.

Analyst Certification

I, Justin Post, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alphabet	GOOGL	GOOGL US	Justin Post
	Alphabet	GOOG	GOOG US	Justin Post
	Amazon.com	AMZN	AMZN US	Justin Post
	AppLovin	APP	APP US	Omar Dessouky, CFA
	DoorDash	DASH	DASH US	Michael McGovern
	DoubleVerify Holdings, Inc.	DV	DV US	Omar Dessouky, CFA
	Electronic Arts	EA	EA US	Omar Dessouky, CFA
	Expedia	EXPE	EXPE US	Justin Post
	Integral Ad Science Holding Corp.	IAS	IAS US	Omar Dessouky, CFA
	LegalZoom	LZ	LZ US	Michael McGovern
	Match Group	MTCH	MTCH US	Curtis Nagle, CFA
	Meta Platforms Inc	META	META US	Justin Post
	Pinterest	PINS	PINS US	Justin Post
	RH	RH	RH US	Curtis Nagle, CFA
	Roblox Corp. Class A	RBLX	RBLX US	Omar Dessouky, CFA
	Squarespace, Inc.	SQSP	SQSP US	Michael McGovern
	Uber	UBER	UBER US	Justin Post
	Udemy Inc	UDMY	UDMY US	Curtis Nagle, CFA
	Vivid Seats	SEAT	SEAT US	Curtis Nagle, CFA
	Wayfair	W	W US	Curtis Nagle, CFA
	Wix.com	WIX	WIX US	Michael McGovern
NEUTRAL				
	ACV Auctions	ACVA	ACVA US	Curtis Nagle, CFA
	Airbnb	ABNB	ABNB US	Justin Post
	Beyond Inc	BYON	BYON US	Curtis Nagle, CFA
	Booking Holdings Inc	BKNG	BKNG US	Justin Post
	Bumble	BMBL	BMBL US	Curtis Nagle, CFA
	Digital Turbine, Inc	APPS	APPS US	Omar Dessouky, CFA
	Duolingo	DUOL	DUOL US	Curtis Nagle, CFA
	eBay	EBAY	EBAY US	Justin Post
	Etsy, Inc.	ETSY	ETSY US	Curtis Nagle, CFA



US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Instacart	CART	CART US	Justin Post
	Magnite, Inc.	MGNI	MGNI US	Omar Dessouky, CFA
	Snap	SNAP	SNAP US	Justin Post
	Take-Two Interactive	TTWO	TTWO US	Omar Dessouky, CFA
	Zillow	ZG	ZG US	Curtis Nagle, CFA
	Zillow	Z	Z US	Curtis Nagle, CFA

UNDERPERFORM

	Chewy Inc	CHWY	CHWY US	Curtis Nagle, CFA
	Lyft, Inc.	LYFT	LYFT US	Michael McGovern
	Opendoor Technologies	OPEN	OPEN US	Curtis Nagle, CFA
	Peloton	PTON	PTON US	Curtis Nagle, CFA
	Playtika	PLTK	PLTK US	Omar Dessouky, CFA
	Redfin Corp	RDFN	RDFN US	Curtis Nagle, CFA
	Shutterstock	SSTK	SSTK US	Curtis Nagle, CFA

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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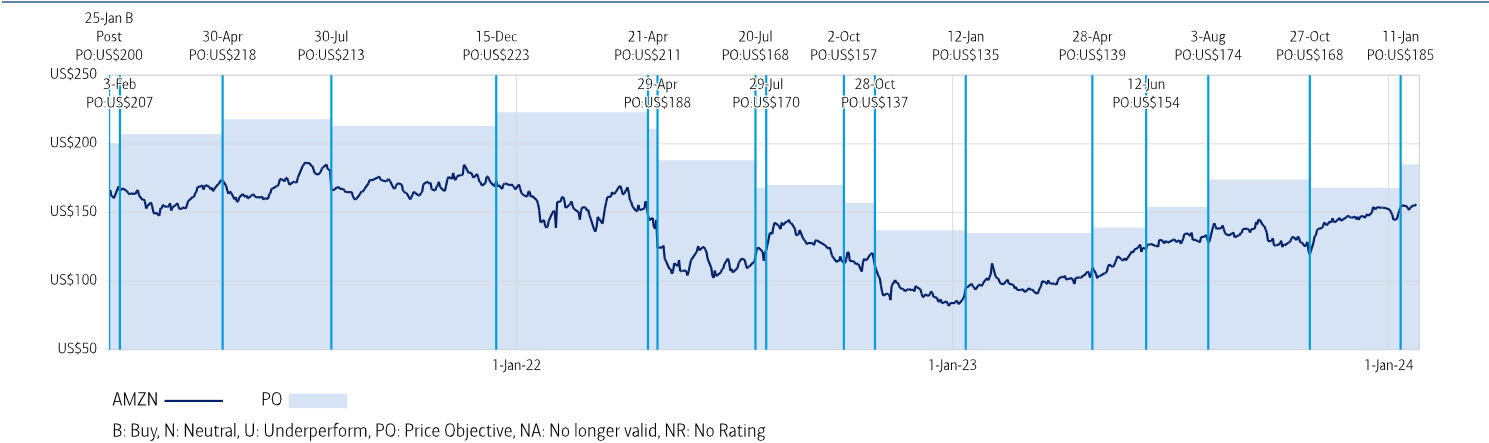
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Amazon.com (AMZN) Price Chart



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Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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