

Amazon.com

2024 PM Level Outlook

Reiterate Rating: BUY | PO: 185.00 USD | Price: 153.73 USD

Strong '23 for retail, AWS the 2nd act in 2024

Amazon outperformed the NASDAQ and eCommerce sector in 2023 (79% vs. 43% for NASDAQ). Multiple expansion helped drive stock performance, with fwd. yr. P/S multiple now at 2.4x vs. 1.7x at the start of '23, and we think further P/S expansion is possible in '24 with retail margin expansion/upside. Also, mgmt. sees a "gigantic" opportunity for A.I. driven demand, and we think AWS acceleration and greater visibility on Cloud A.I. revenues will be key positives in '24. Logistics as a Service (LaaS) traction, appreciation of Amazon's A.I. chip technology, and Prime ads strength are other potential positives.

AWS growth top overhang and key '24 theme

AWS' growth trailing Azure, and risk of "missing" A.I. cycle could be top stock overhang. With easy comps, we project AWS revenue growth to accelerate in 1Q'24 and reach 17% by 3Q'24, closing the growth gap. As for A.I., we expect greater visibility on Cloud A.I. capabilities and A.I. demand growth to aid all hyperscalers in 2024 ("tens of billions of revenue opportunity"), while Amazon's Inferentia and Trainium chip technology and new proprietary LLM (reportedly in development) could see greater Street appreciation.

Ests. vs. Street: in-line but see retail driven margin upside

For 2024E, we est. revenue/GAAP profit of \$637bn/\$50.0bn, relatively in-line with Street at \$638bn/\$49.3bn. That said, see upside to Street N.A. retail margins on continued logistics efficiencies and Prime video ramp (see [1/4/24 report](#)). We roll forward our PO basis to higher 2025E estimates based on our sum of parts analysis, and raise our PO to \$185 (from \$168). Our PO represents 14x Street 2025 EBITDA (well within hist. ranges) and 37x Street GAAP 2025 EPS (Amazon getting close to a P/E valuation framework).

Investment Positives & Risks for 2024

Potential positives include: 1) US eCommerce acceleration, as reopening & inflation headwinds fade; 2) AWS positioned for acceleration; 3) Retail margin improvement cycle above estimates; 4) Multi-billion Prime video ad ramp; 5) More Logistics-as-a-Service traction. Risks include: 1) Consumer spending could slow in 2024; 2) Uncertainty around AWS growth trajectory & competition; 3) Chinese competition ramping with TikTok coming; 4) Potential for Grocery investment cycle; 5) High P/E at 31x 2025 Street GAAP EPS. See our Bull and Bear table & valuation scenarios within this report.

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)			3.66	4.53	5.58
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	37.3x	129.2x	32.6x	23.6x	19.8x
GAAP P/E	47.4x	NM	56.1x	40.7x	33.6x
EV / EBITDA*	22.8x	22.0x	15.5x	12.7x	11.3x
Free Cash Flow Yield*	-0.6%	-0.7%	1.9%	1.0%	1.9%

* For full definitions of *IQmethod*SM measures, see page 23.

11 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	168.00	185.00

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Stock Data

Price	153.73 USD
Price Objective	185.00 USD
Date Established	11-Jan-2024
Investment Opinion	B-1-9
52-Week Range	87.29 USD - 155.63 USD
Mkt Val (mn) / Shares Out (mn)	1,563,588 USD / 10,171.0
Free Float	87.7%
Average Daily Value (mn)	7290.64 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

GMV: Gross Merchandise Value

AWS: Amazon Web Services

LaaS: Logistics as a Service

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Refer to important disclosures on page 24 to 26. Analyst Certification on page 22. Price Objective Basis/Risk on page 22.

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Timestamp: 11 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 23.

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 47,424,964

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

2024 PM Level Outlook Summary

Amazon entered 2023 in an uncertain macro environment with elevated fulfillment costs and higher than usual estimate uncertainty. As macro and costs concerns cleared, Amazon stock finished the year up 79% (vs. NASDAQ up 43%, and eCommerce sector up 52%). Multiple inflection drove much of the stock appreciation in 2023, with fwd. yr. P/S multiple now at 2.4x vs. 1.7x at the start of 2023, but Amazon also grew sales 11% (est). With retail margins still having room for upside and AWS poised to accelerate, we think the stock is attractively positioned into 2024 and, given higher expected exposure to interest rates moves (higher P/E stock with consumer spending exposure), potentially more of a “risk on” stock than large cap peers Alphabet and Meta.

AWS Growth at a trough, poised to accelerate

AWS growth is likely the biggest Stock overhang into 2024, and we think the headwinds facing Amazon will dissipate in 2024, driving acceleration. AWS results in 2Q/3Q '23 suggested AWS is returning to a more normalized pattern of Q/Q growth, driven by pricing normalization and renewed workload growth. Also, Amazon commentary on the 3Q call suggested strong contract signings in October and declining cost optimization headwinds. Finally, A.I. driven demand should be an increasing tailwind as 2024 progresses, with potential for “tens of billions of revenues” longer term.

Still retail margin leverage ahead with upside potential to Street ests

Amazon's North America Margin jumped from -0.9% in 2022 to +3.5% for 2023E, but there is room for more improvement in 2024/2025. If we exclude advertising profits in 2023, we estimate a -0.2% North America Retail Margin, still well below the 3.0% average from 2018-19 (prior to significant profit contribution from Ads). Mgmt. has suggested improvement toward pre-pandemic retail efficiencies is possible, suggesting NA margins could reach 7% with a 400bps contribution from Advertising, well above Street at 5.7% in 2025.

However, still significant economic and competitive uncertainty

BofA economists forecast a deceleration in Real GDP growth throughout 2024, to 1.2% Y/Y in 4Q'24 from 2.7% in 4Q'23, potentially contributing to slowing consumer spending growth. Potential headwinds for consumer spending in 2024 include elevated financing costs, resumption of student loan payments, higher rent & insurance costs, and increasing unemployment levels. Also, Amazon faces incremental competition in Cloud from emerging A.I. demand, and in retail from growing China import competition.

Bull and Bear points:

Investment Positives for 2024 include: 1) eCommerce sector acceleration, and Amazon gaining share; 2) AWS growth poised to accelerate on improving optimization trends; 3) Significant headroom in retail margin improvement cycle, still upside ahead; 4) Large Ad ramp coming in 2024, with Prime Video ads and Partnerships; 5) More visibility and traction for Logistics as a Service; and 6) Valuation attractive vs. history.

Since sentiment is seemingly very positive on the stock, we are providing some potential operational and sentiment upside cases: New Street appreciation of Amazon's A.I. chip technology to reduce dependence on Nvidia, advertising traction and continued retail margin upside moves Street L.T. retail margin estimates toward 10% (5-6% for core retail and 4-5% contribution from advertising), Cloud A.I. revenue surprises drives a re-rating in AWS valuation, and legislation changing de minimis rules or slowing traction for Chinese retailer sales as novelty fades.

Investment Risks for 2024 include: 1) Consumer spending could slow in 2024 as global growth decelerates; 2) Uncertainty around AWS growth trajectory given A.I. competition; 3) Chinese competition increases with TikTok traction; 4) New Grocery investment cycle could be a margin headwind; 5) Heightened regulatory scrutiny with FTC antitrust lawsuit, and 6) Relatively high P/E with Amazon trading at 31x Street 2025 GAAP EPS.



Exhibit 1: Bull vs. Bear

Bull and Bear points for 2024

Bull Points	Bear Points
<p>1) eCommerce sector acceleration, and Amazon gaining share. We expect Amazon's retail share gains to continue into 2024 as faster delivery speeds drive new demand in higher velocity categories like grocery, health/personal care, and convenience. For 2024, we estimate Amazon US GMV growth at 11% and market share of 38% (+40bps y/y).</p>	<p>1) Consumer spending could slow in 2024. BofA economists forecast a substantial deceleration in Real GDP growth in 2024, reaching 1.2% Y/Y in 4Q'24 from 2.7% in 4Q'23, potentially contributing to slowing consumer spending. Potential headwinds for consumer spending in 2024 include elevated financing costs, student loan payments, higher rent, insurance, and unemployment.</p>
<p>2) AWS growth at trough and poised to accelerate. We project AWS revenue growth at 16% Y/Y for 2024E, closing the gap to Azure and GCP growth. Amazon was harder hit by Cloud spending optimization in 2023, and these headwinds should fade as the year progresses. We note Q/Q AWS growth has improved in 2Q/3Q, and Amazon indicated a large number of deals were signed in October.</p>	<p>2) Uncertainty around AWS growth trajectory. Mgmt. commentary suggests AWS began lapping optimization headwinds in Aug.-Sep. of 2023, but Q3 results suggest only slight improvement. Also, Azure growth accelerated in 3Q and the growth gap widened vs. AWS, potentially suggesting superior positioning for A.I. related demand and/or Nvidia GPU supply.</p>
<p>3) Still significant headroom for retail margin improvement/upside. Amazon's North America Margin jumped from -0.9% in 2022 to +3.5% for 2023E, and we project continued improvement in 2024 to 4.9%. Ex-advertising, we estimate a (0.2%) N.A. Retail Margin in 2023, well below the 3.0% average from '18-19, suggesting material room for improvement to reach pre-pandemic margins.</p>	<p>3) Chinese competition ramping with TikTok coming. Chinese competitors like Temu, Shein, and TikTok Shop are expanding rapidly beyond China with growth being driven by aggressive marketing campaigns. TikTok will more aggressively target the US market in 2024, while Temu has aggressive growth plans, potentially increasing the competitive threat and growth headwind for Amazon (we estimate a 1pt headwind to rev. growth in 2023).</p>
<p>4) Ad ramp in 2024 from Prime Video and Partnerships. Our 4Q ad checks suggest advertising growth accelerated in 4Q, a positive set up into next year. Also, we estimate new Prime Video subscription fees + ad revenues can contribute up to \$5bn in incremental revenues, adding 50bps to retail margins. Amazon also signed ads deals with Pinterest & Meta/Snap, which could provide modest boosts to ad revenue and GMV.</p>	<p>4) Potential for grocery investment cycle margin headwind. Amazon announced grocery delivery and free pickup through Fresh, expanding to customers without a Prime membership (which is free for orders over \$100). Given the importance of the category, there is risk that another investment cycle is on the horizon, though, so far, Amazon's grocery investment appears to be more measured.</p>
<p>5) More visibility for Logistics-as-a-Service. Amazon's 3P logistics service offering could unlock a substantial TAM, with the global shipping market estimated at \$2.2 trillion. A modest 1% share of the global shipping represents a \$20bn revenue opportunity. We expect new services to continue to rollout for 3P retailers in 2024, leveraging Amazon's logistics capacity.</p>	<p>5) Heightened regulatory scrutiny. In Sept., the FTC and 17 state AGs filed an antitrust lawsuit alleging Amazon is a monopoly and inflates consumer prices via pricing rules and seller fees. While a trial isn't expected until 2025 at the earliest, results of the DoJ case vs. Google could impact Amazon sentiment. A large focus for regulators in 2024 will be AI, particularly for targeted advertising and AI-generated media, which could impact Amazon or AWS demand.</p>

Source: BofA Global Research

BofA GLOBAL RESEARCH

BofA vs. Street: Slightly above on 2024 Margins

For 2024, we forecast revenue of \$637bn, relatively in line with Street, but are 2% above Street for operating profit at \$50bn.

Table 1: BofA vs. Street

For 2024, we forecast revenue of \$637bn, relatively in line with Street

Revenue	4Q'23	2023	2024	2025
BofA est.	\$165,845	\$570,669	\$637,255	\$710,719
Growth Y/Y%	11%	11%	12%	12%
Street	\$166,044	\$570,778	\$637,612	\$714,192
BofA vs. Street	0.1% Below	0.0% Below	0.1% Below	0.5% Below
GAAP Operating Profit				
BofA est.	\$10,920	\$34,563	\$50,017	\$62,046
Street	\$10,656	\$34,113	\$49,202	\$64,079
BofA vs. Street	2% Above	1% Above	2% Above	3% Below
GAAP EPS				
BofA est.	\$0.84	\$2.74	\$3.78	\$4.58
Street	\$0.80	\$2.70	\$3.71	\$4.94
BofA vs. Street	5% Above	1% Above	2% Above	7% Below

Source: Bloomberg, BofA Global Research

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Raising PO to \$185 based on 2025 estimates

We are rolling forward our PO basis to 2025 estimates from 2024, and raising our PO to \$185 from \$168 based on higher estimates and higher multiples in our SOTP to reflect recent comparable multiple expansion. 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. Our 7.5x AWS multiple is modestly below our SaaS comps at 8.3x, 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. Our PO of \$185 for Amazon implies 2.8x P/Sales.

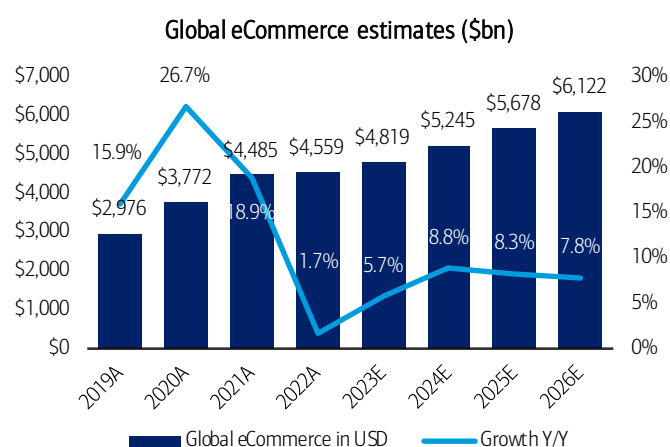
Investment Positives

1) eCommerce sector acceleration, Amazon gaining share

In our recent [2024 Global eCommerce outlook\(see note\)](#), we project 3pts of acceleration for Global eCommerce growth in 2024, to 9%, as inflationary and reopening headwinds fade and FX translation trends positive. We expect less acceleration in US eCommerce growth vs. global, up 1pt to 9% Y/Y, but there could be upside with normalizing penetration gains post-COVID. Additional tailwinds for eCommerce acceleration include better eCommerce service levels (faster delivery), buildout of omnichannel & local delivery, and improving Website technology (including A.I.). Overall, we project \$2.61tn US\$ in GMV for 2024, with Global eCommerce at \$5.2tn (see charts below).

Exhibit 2: Global eCommerce estimates (\$bn)

We project Global eCommerce growth to accelerate 3pts to 8.8% y/y in 2024

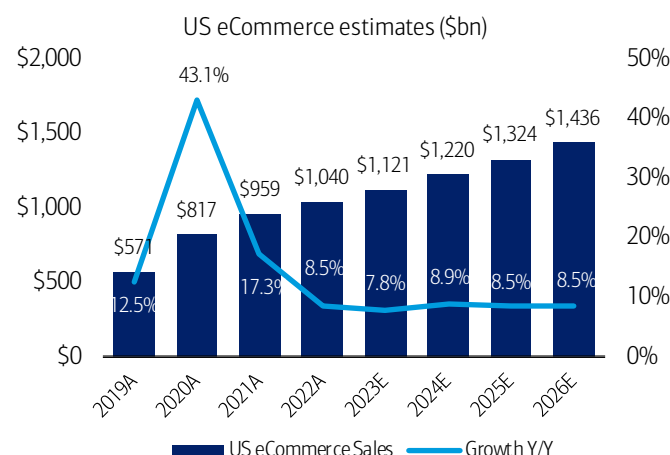


Source: BofA Global Research estimates

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Exhibit 3: US eCommerce estimates (\$bn)

We project US eCommerce growth to accelerate 1pt to 8.9% y/y in 2024

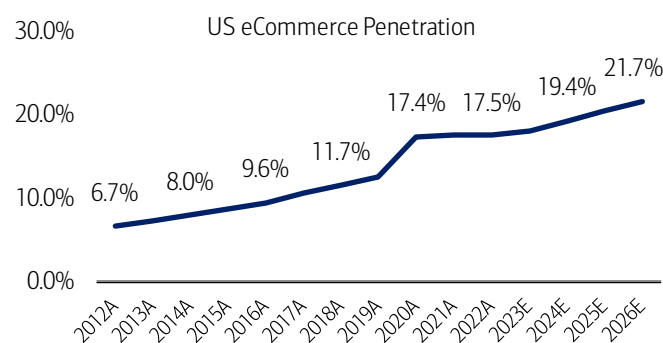


Source: BofA Global Research estimates

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Exhibit 4: US eCommerce Penetration

We expect penetration to reach 18.2%/19.4% in 2023/2024

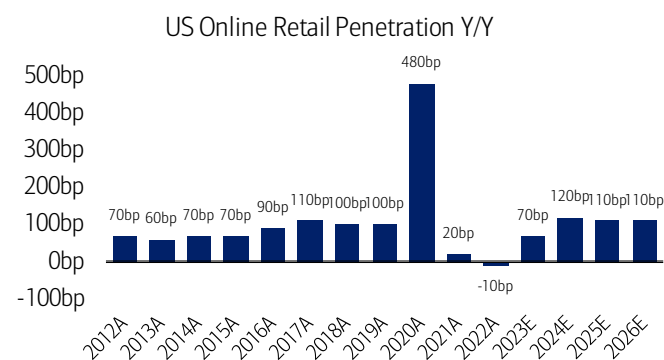


Source: US Census Bureau, BofA Global Research

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Exhibit 5: Y/Y change in US eCommerce Penetration

We expect penetration to increase 70/120bps in 2023/2024



Source: US Census Bureau, BofA Global Research

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Amazon still gaining share in US eCommerce

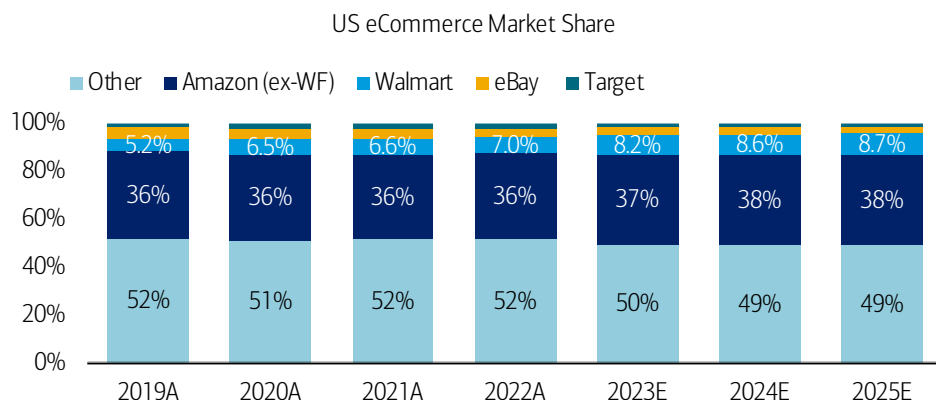
For 2023E, we estimate Amazon North America GMV (excluding Whole Foods) grew 12% y/y, 4pts higher than the larger industry, and we estimate 10.8% growth for AMZN GMV in 2024 (2pts higher than industry). We expect Amazon's retail share gains to be driven by faster delivery speeds that lead to increased purchase frequencies in higher velocity



categories like grocery, health/personal care, and convenience items, as well as Amazon's strong assortment and value pricing enabled by 3P.

Exhibit 6: Big-4 market share

We estimate that Amazon's US share will increase 40bps in 2024



Source: Company reports, Department of Commerce, BofA Global Research

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2) AWS growth positioned to accelerate

With still only 10% of IT spending in the cloud, an improving business cycle, growing workload volumes, and lapping pricing decreases, we think AWS growth is poised to accelerate in 2024. AWS is now annualizing cost optimization headwinds that started in 3Q'22 and peaked in 1Q'23, and with much of the headwind attributable to pricing rather than workloads, revenue growth should accelerate as pricing cuts are annualized. Mgmt. has noted that AWS started to lap optimization headwinds in 3Q'23, but we think much of acceleration in Y/Y growth remains ahead. Mgmt. noted strong new deal volume in September 2023, exceeding the rest of Q3 combined, which could suggest an improved business cycle into year-end, with rate expectations improving & businesses re-investing in IT services.

Big A.I. Opportunity Ahead

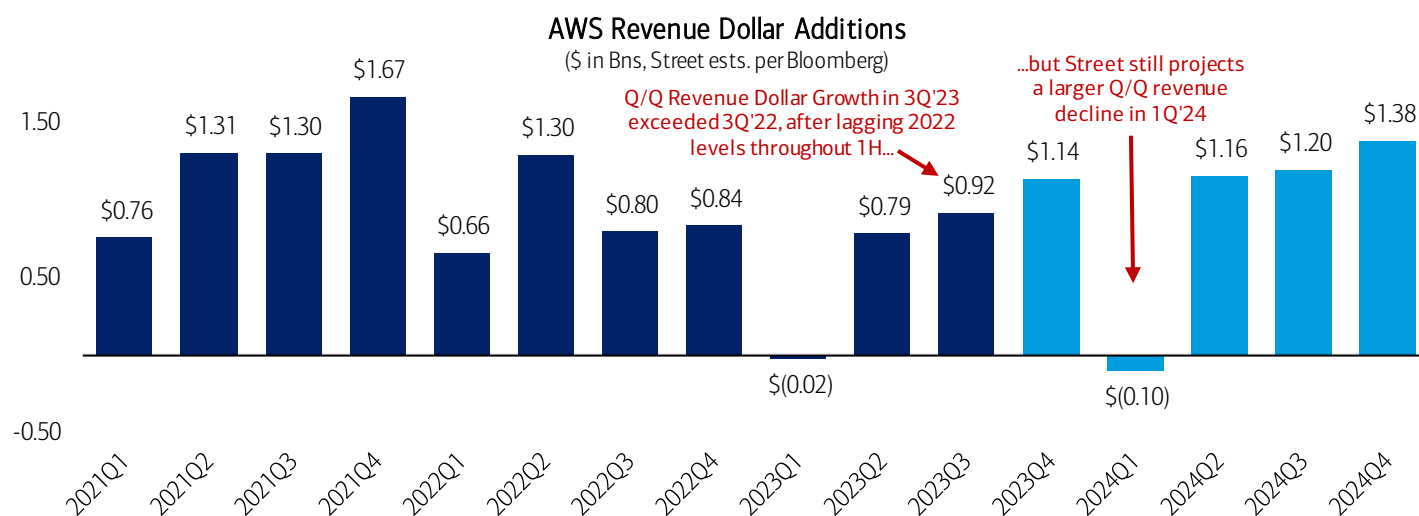
AWS still has a "gigantic" opportunity ahead in A.I., with mgmt. expecting "tens of billions" in A.I. driven demand. We expect some contribution to growth for AWS in 2024 due to A.I., and although the magnitude is uncertain, CEO Andy Jassy has said incremental A.I. growth was comparable to peers (presumably Azure on a dollar basis). We expect a higher level of contribution in 2024, likely exceeding 3pts (in line with Azure). Further, Microsoft & Google have been perceived as A.I. leaders, but AWS has potential for proprietary hardware leadership with its Trainium and Inferentia chips (which have been adopted by key customers including Anthropic), and we think this could be underappreciated by the Street.

We project AWS growth to accelerate, while Azure decelerates in '24

In Q3, AWS Revenue grew 12%, nearly 20pts below our estimated 31% IaaS/PaaS Revenue growth for Azure, and 27% estimated for Google Cloud. However, in 2024, we project AWS growth will accelerate to 16% as the company laps greater cost optimization headwinds, while Azure & GCP decelerate slightly. Looking at Q/Q revenue growth for AWS, the \$920mn dollar additions Q/Q in 3Q'23 exceeded the prior year's growth (+\$840mn Q/Q in 3Q'22), after Q/Q gains in 2023 had lagged 2022 in 1H'23. We believe AWS is returning to a normalized growth pattern of increasing Q/Q revenue growth, making 1Q'24 estimates especially conservative.

Exhibit 7: AWS Dollar Additions (\$ in Bns)

Street Projects \$100mn lower AWS Revenue Q/Q in 1Q'24, the biggest drop in quarterly revenue since inception



Source: Bloomberg estimates, company reports

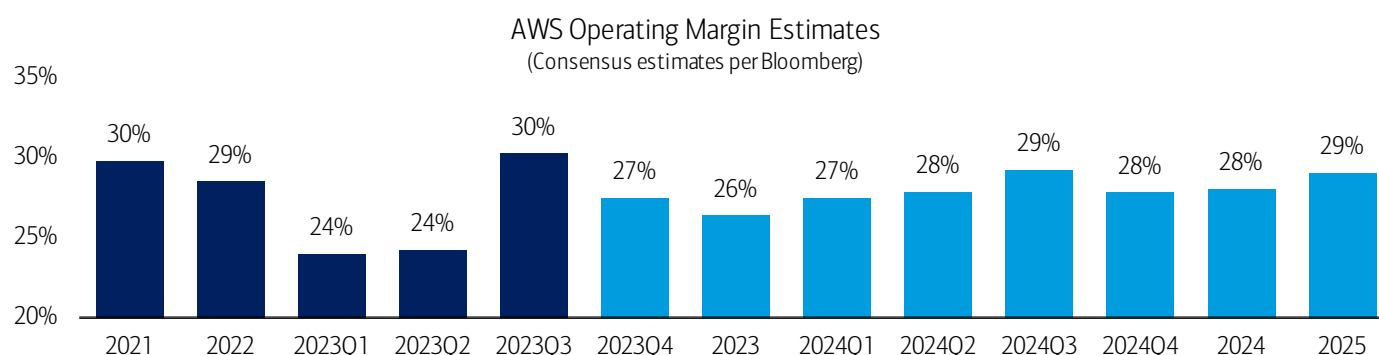
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Street AWS Margins also seem conservative

AWS Margins are also steadily improving and likely to remain strong, 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, Street projects AWS margins to decline and remain below 30% through 2025 (per Bloomberg, see chart below), which we view as conservative.

Exhibit 8: AWS Margin Projections

After reaching a 30% margin in 3Q'23, Street projects AWS margins to decline and remain below 30% through 2025



Source: Bloomberg estimates, company report

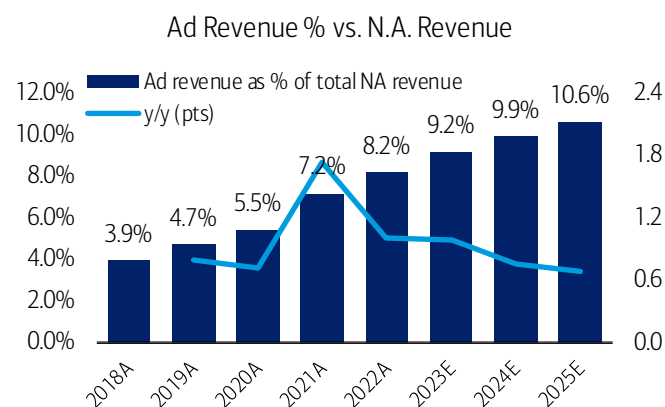
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3) Significant headroom in retail margin improvement cycle

We estimate Amazon's North America margins at 3.5% in 2023E, up from -0.9% in 2022 as Amazon realizes leverage from growing scale, cost cuts, and its regionalized logistics network. However, advertising revenues had an outsized contribution to Amazon's positive margins in 2023, and retail margins (ex-advertising) are still depressed. Backing out the estimated advertising profit contribution at a 40% operating margin, we estimate 2023 N.A. retail margins ex-advertising at -0.2%, an improvement from -4.6%E in 2022 but well below the 3.0% average from 2018-2019.

Exhibit 9: Ad revenue as percent of total North America revenue

We estimate North America advertising revenue will be roughly 10% of total N.A. revenue in 2024

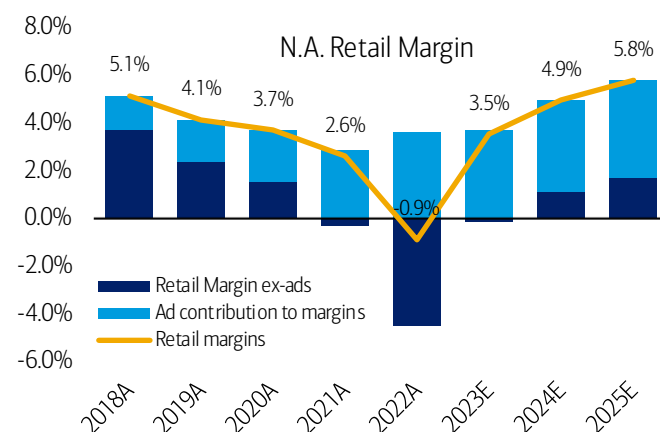


Source: BofA Global Research

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Exhibit 10: North America retail margins

We estimate advertising will be a 3.7/3.9pt incremental tailwind to retail margins in 2024/2024



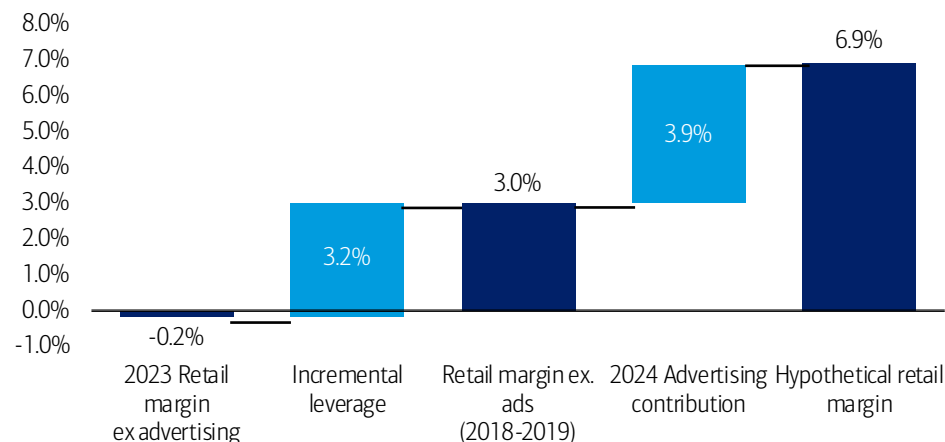
Source: Company reports, BofA Global Research

BofA GLOBAL RESEARCH

Amazon management has indicated that North America retail margins, ex-advertising, can recover toward pre-pandemic levels (we estimate Amazon had 3% average NA margins without advertising based on 2018/2019 reported margins), suggesting a comparable retail margin of 7% is possible with the benefit of roughly a 400 basis point contribution from advertising. Drivers of N.A retail margin improvement ex-ads to 3% (from -0.2% in 2023E) include further efficiencies from continued optimization of Amazon's regionalized network, higher consumer and 3P fees, subdued capex investments in retail, and advancements in robotics to drive labor efficiencies. See note: [Retail Margin Checkup](#) for more detailed thoughts on Amazon's core margin drivers.

Exhibit 11: Hypothetical North America retail margins with advertising contribution

Given comparable pre-pandemic retail margins of 3%, we see a path to 7% retail margins with advertising



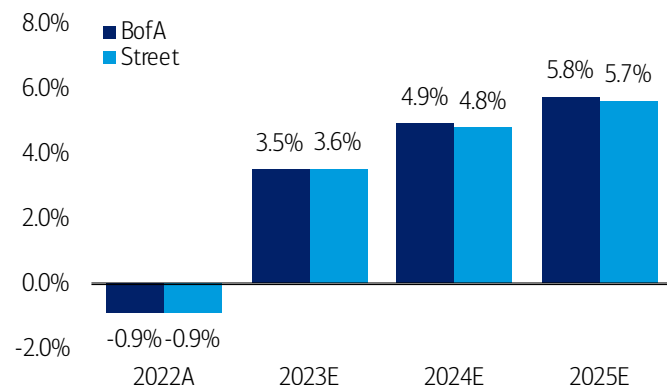
Source: BofA Global Research estimates

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We are close to Street estimates projecting retail margins expand to 4.9% in 2025. We think Street and BofA projections could be conservative given the rate of Amazon's margin improvement in 2023, and our estimates for close to \$3bn in incremental N.A. subscription and advertising revenue from Prime Video, which could contribute \$2bn in incremental profit assuming 60% contribution margins and 50bps in 2024 margin improvement.

Exhibit 12: North America retail margins

We project N.A. retail margins to reach 5.8% in 2025

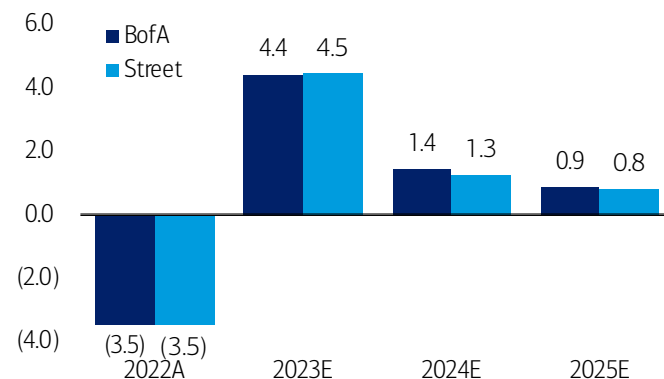


Source: Company reports, Bloomberg, BofA Global Research

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Exhibit 13: Y/Y change in North America retail margins (pts)

For 2024/2025, we project 140pbs in y/y leverage



Source: Company reports, Bloomberg, BofA Global Research

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4) Ad ramp coming in '24 with Prime Video & Partnerships

Prime Video

Starting on Jan 29, Prime Video users will begin seeing limited advertisements on Prime Video in the US, followed by several International markets (see report on [ad ramp in 2024](#)). Users will be able to opt-into an ad-free tier for an additional \$2.99/mo. (\$36/yr.) for US Prime members, still significantly less than peers.

Exhibit 14: Monthly cost of streaming services in the US

Prime Video's ad-free tier cost difference is lower than peers

	Ads	Ad-free
Prime Video (w/ Prime)	Incl. w/ Prime	\$2.99
Prime Video (standalone)	\$8.99	\$11.98
Peacock	\$5.99	\$11.99
Disney+	\$7.99	\$13.99
Netflix	\$6.99	\$15.49
HBO Max	\$9.99	\$15.99
Hulu	\$7.99	\$17.99

Source: Company reports, BofA Global Research

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Commentary from Netflix indicates that an ad user can monetize better than a paid user, suggesting that Netflix could be generating ad revenue above \$8.50/mo. (\$102/yr.) per subscriber, which is the difference between ad and ad-free subscription cost in the US. We also note, per Netflix, users interact with ads 4.5x more than Linear TV, potentially lending to higher monetization rates. However, relative usage on Amazon Prime Video is less, with Nielsen data suggesting Netflix captures 7.2% of TV consumption in the US compared to 3.6% for Amazon Prime Video (and 54% for Linear TV). Given less time spent on Amazon and lower expected ad loads, we expect Amazon's ad monetization to be a fraction of Netflix.



If we assume 150mn Prime members (of over 200mn total subs) use Prime Video (our recent eCommerce survey suggested around 70% of Prime subs use Prime Video), 30% choose to pay for an ad-free experience at \$36/yr., and a slightly lower ad monetization rate of \$30/yr. for the remaining 105mn Prime Video users, we get to a \$4.8bn incremental Prime Video monetization opportunity.

Exhibit 15: Prime Video monetization opportunity (\$mn)

Assuming slight lower revenue for ad members, advertising on Prime could be a \$3bn opportunity

Prime Video Monetization Opportunity

Video users (mn)	150		
% users paying for ad-free	30%	% users with ads	70%
Users with ad-free (mn)	45	Users with ad-tier (mn)	105
Ad-free cost (annual)	\$36.00	Assumed ad monetization	\$30.00
Ad-free opportunity (\$mn)	\$1,620	Ad opportunity	\$3,150

Total monetizable opportunity \$4,770

Source: BofA Global Research

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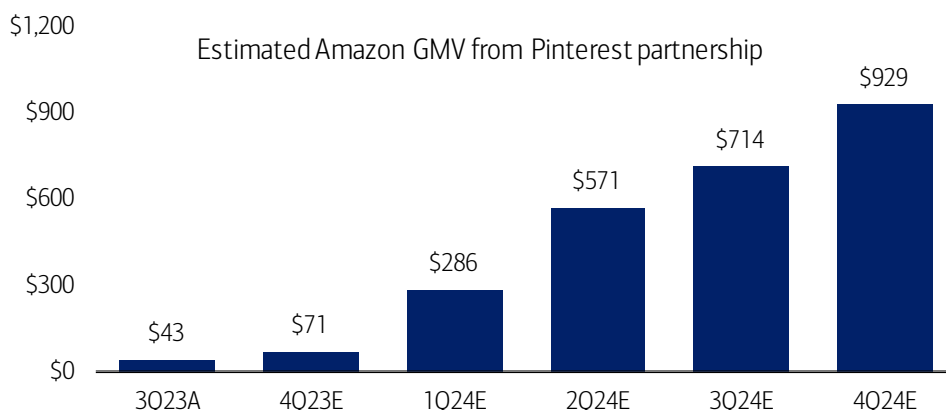
On the 4Q'22 earnings call, CEO Andy Jassy indicated that \$7bn of Amazon's \$16.6bn media content expense was related to video content production/licensing in 2022, up from approx. \$5bn in 2021. If we assume a 60% incremental EBIT margin (excludes content costs) on our \$3.2bn ad revenue estimate, we estimate Prime ads can generate \$1.9bn in profit. Margins in this scenario would still be quite negative, suggesting further revenue upside given TV network industry margin benchmarks.

Third-party ads

In April 2023, Amazon announced partnerships Pinterest, BuzzFeed, Ziff Davis, and others to bring third-party ads to their respective platforms. Deal economics disclosures are limited, though we estimate Pinterest could generate \$175mn in 2024 revenue from the ad partnership. Assuming this represents 70% of the total gross ad revenue generated (Google pays publishers 68% of AdSense revenue for display ads), Amazon could generate around \$75mn in incremental ad sales from Pinterest, and possibly over \$100mn including other partners. Also, if we assume a 10% effective commission rate on this ad spend on Amazon, these ads placed on Pinterest and other partners could yield \$3bn in additional GMV on Amazon's platform in 2024.

Exhibit 16: Estimated Amazon GMV from Pinterest partnership (\$mn)

We estimate Amazon could generate \$2.5bn in 2024 GMV with the partnership with Pinterest



Source: BofA Global Research estimates | assumes 30/70% revenue share for Amazon/Pinterest and 10% effective commission rate

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First-party ads

Amazon also announced partnerships with Meta and Snap in November. With these first-party ads, users will be able to link their Amazon accounts and shop directly from promoted listings without leaving the respective apps. There is little deal precedence to help indicate how much incremental GMV Amazon could generate from improved ads and shopping on Meta/Snap, and we expect some customer resistance on linking accounts to limit potential transactions. However, the collaboration should increase top of mind product awareness for Amazon's inventory given Meta's strong targeting capabilities, and likely improve ad conversion given less friction before purchase.

In 2022, Amazon spent \$20.6bn on advertising to promote its products. If we assume half was spent Online and 33% of that was spent on Meta & Snap, we estimate about \$3.4bn was spent on these two social platforms. Assuming a 10% commission equivalent cost for advertising, we could estimate that this social ad spend may have generated \$34bn in GMV for Amazon. A 20% improvement in ROI on this spend from user being able to link their Amazon account could generate an additional \$7bn in GMV.

Exhibit 17: Incremental GMV from partnership with Meta & Snap

If Amazon's partnership with Meta & Snap improves ROIs on Amazon ads by 20%, we estimate an additional \$6.8bn in GMV

Meta/Snap Analysis	
2022 Amazon advertising spend	\$20,600
Portion spent Online	50%
Portion spent on Meta/Snap	33%
Advertising spend on Meta/Snap	\$3,400
Effective commission rate	10%
Assumed GMV	\$34,000
Improvement in ROI	20%
Incremental GMV from partnership	\$6,800

Source: Company reports, BofA Global Research

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5) Logistics-as-a-Service the next leg of services stool

Logistics-as-a-Service could be the fourth leg of Amazon's service platform, following 3P eCommerce, AWS, and Advertising. In 2023, Amazon announced several initiatives to further the company's third-party Logistics-as-a-Service (LaaS) offerings, namely the relaunch of Amazon Shipping (see [August Shipping note](#)), Supply Chain by Amazon (see [September note](#)), and integration with Shopify (see [August Shopify note](#)). Key LaaS initiatives by Amazon include:

- **Amazon Shipping.** The company relaunched Amazon Shipping in August 2023 after pausing the service in 2020 as the pandemic strained logistics capabilities. The program enables 3P sellers within the US to ship items sold outside of the Amazon platform using Amazon logistics network. Management has indicated that the shipping service can offer lower prices than delivery competitors because "any extra space it can fill in its trucks with additional deliveries is considered added revenue" (per WSJ), while also including the elimination of many fees and surcharges. Longer-term, we could see the service expanding to all retailers or even the local delivery market as Amazon builds out its local, same-day delivery centers.
- **Supply Chain by Amazon.** Announced in September 2023, Supply Chain by Amazon is a more comprehensive service whereby AMZL will pick up inventory from a seller's manufacturing facility, store the inventory, manage replenishment levels across sales channels (including physical stores), and deliver items to customers in the last-mile. Per Amazon, key benefits of Supply Chain for sellers would include discounts on cross-border shipping (up to 25%), cheaper inbound transportation into warehousing & distribution facilities through partner carriers (also up to 25% savings), lower storage fees on bulk



inventory vs. FBA fees (up to 80% lower), as well as zero peak pricing storage fees during the holiday season.

- **Shopify integration.** Merchants on Shopify can now access Amazon's fulfillment network by enabling Buy with Prime at checkout, which allows Prime customers to pay using saved credentials on their Amazon wallets. Shopify Payments will still process the order, though logistics will be enabled through Amazon Logistics (AMZL). This could improve capacity utilization through 3P logistics is likely higher-margin than Amazon's traditional first-party eCommerce segment and could increase the ROI of Amazon's recent logistics capex investments.

The buildout of Amazon's third-party logistics services could unlock a substantial TAM. According to Allied Market Research, the global shipping market was estimated at \$2.2 trillion, so a modest 1% share of the global shipping represents a \$20bn revenue opportunity. Furthermore, Pitney Bowes (PB) estimates 21.2bn parcels were delivered in the US in 2022 representing \$198bn in revenue (+6.5% y/y). PB estimates Amazon captures 12% market share of eCommerce parcel revenue, on much higher 22% share of packages delivered. These estimates suggest an \$150bn+ in LaaS revenues opportunity for Amazon.

Increasing fulfillment network utilization through recent efficiency gains (US regionalization), and now better capacity utilization via non-Amazon sellers, can contribute to additional retail margin improvement from here. We think Amazon can also use AI/ML to build dynamic logistics pricing models, offering attractive rates for retailers when Amazon has excess capacity. Although Amazon will face challenges servicing peak holiday demand that will include non-Amazon orders, we think LaaS can help Amazon better optimize capacity and profits in the other three quarters of the year. While we expect less investor optimism on shipping-as-a-service vs. Cloud or Advertising, we note that the Cloud & Advertising revenue ramps were positives for the stock.

6) EBITDA valuation at attractive levels vs. history

We view Amazon as attractive on a P/S and EV/EBITDA basis vs. history. The stock is currently trading at 2.4x 2025 sales, a multiple near the middle of Amazon's historic range of 1.0x-4.0x, despite numerous potential drivers of multiple expansion that include an increasing mix of third-party sales (that is reported on a net basis), a growing AWS revenue contribution, and expanding gross profit margins driven by high-margin advertising revenues. On an EV/EBITDA basis, Amazon is valued at 11.8x Street 2025E EBITDA, which is near the lower end of Amazon's historical range of 8.5x-30x. While the multiple has rebounded from its low in late-2022, Amazon still trades far below the historical average of 17.5x since 2010.

Exhibit 18: Amazon 2025 EV/EBITDA multiple

Amazon trades at 11.8x Street 2025 EV/EBITDA, well below the stock's historical average of 17.5x since 2010



Source: Bloomberg, BofA Global Research

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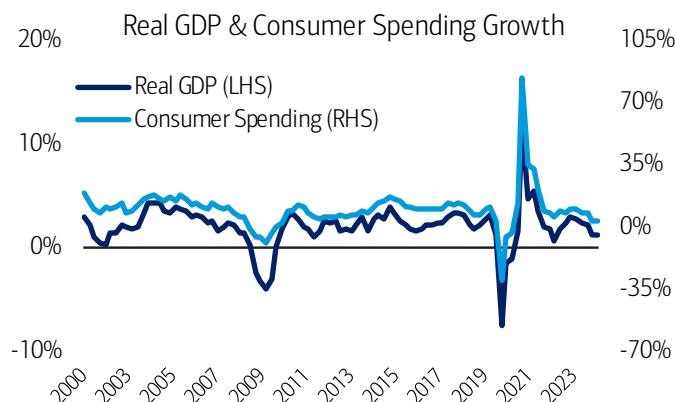
Investment Negatives

1) Consumer spending could slow in 2024

BofA economists forecast Real GDP growth to decelerate substantially throughout the year, to +1.2% y/y in 4Q'24 from 2.7%E in 4Q'23. Decelerating GMV should slow consumer spending as GDP and consumer spending have a 90% correlation since 2000. Some cautious consumer data points include: 1) Personal savings have fallen over the past two years and are now in line with pre-pandemic levels; 2) Credit card delinquencies are at highest level since 2012; 3) BofA economists forecast unemployment to rise to 4.2% by the end of 2024.

Exhibit 19: Y/Y change in Real GDP and Consumer Spending

BofA economists forecast Real GDP growth of 1.2% y/y in 4Q'24

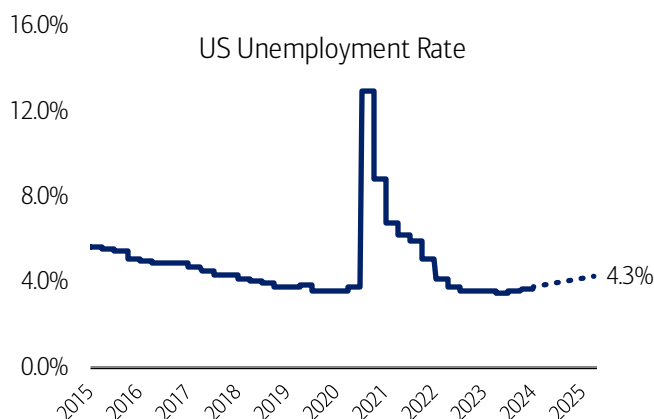


Source: Bloomberg, BofA Global Research

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Exhibit 21: Unemployment rate

BofA economists forecast unemployment to rise to 4.2% by the end of 2024

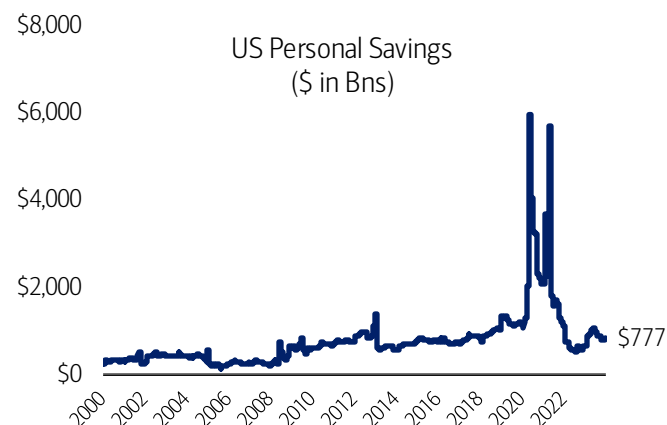


Source: Bloomberg, Bureau of Labor Statistics, BofA Global Research

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Exhibit 20: Personal savings (\$bn)

US personal savings are now in line with pre-pandemic levels

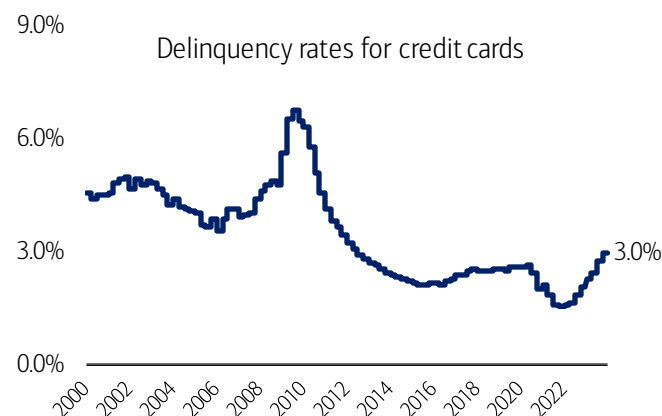


Source: Bloomberg

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Exhibit 22: Delinquency rates for credit cards (all banks)

Credit card delinquencies are at highest level since 2012



Source: Federal Reserve, Bloomberg

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Headwinds to consumer spending in 2024 could include: 1) elevated consumer financing costs; 2) resumption of student loan payments; 3) elevated rent costs; 4) higher insurance costs; 5) lower consumer savings; and 6) elevated unemployment. Tailwinds could be from lower inflation, normalizing travel/entertainment spend, and lower gas prices on a 2-year basis.

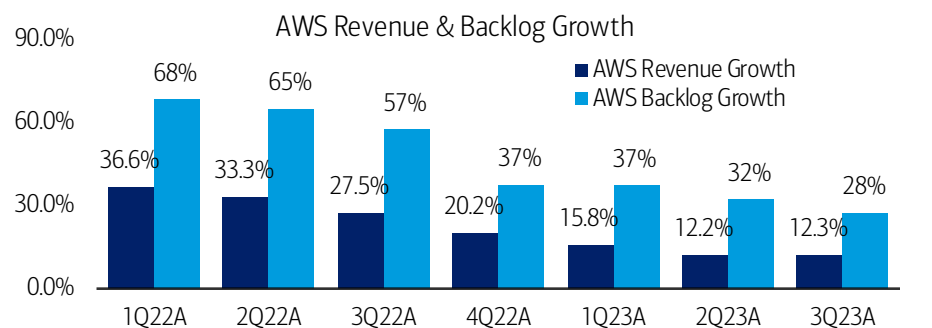


2) Uncertainty on AWS growth and competition

AWS growth slowed to 12% in 3Q'23, and there is uncertainty on reacceleration from here. In our view, the two biggest uncertainties ahead for growth are the ongoing shift to longer-term contracts that provide pricing concessions, and the A.I.-driven competition for a limited supply of Nvidia GPUs. On the Q3 earnings call, Amazon indicated optimization still remains a y/y headwind, though the rate of new cost-optimization is slowing. There are a multitude of factors underlying the cost-optimization cycle, but versus peers, we think AWS saw a larger negative impact due to the higher percentage of AWS customers that were on pay as you go contracts heading into the optimization cycle. Reported AWS revenue and backlog data underscore this shift, with revenue growth trailing backlog growth (see chart below).

Exhibit 23: AWS Revenue & Backlog Growth

AWS Revenue growth is trailing backlog growth



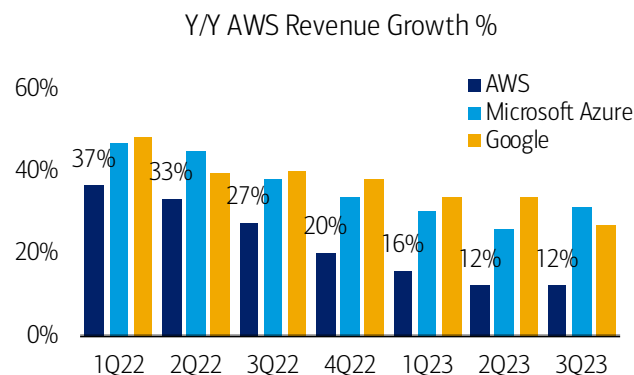
Source: BofA Global Research

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This contract shift, and Amazon's greater reliance on SMB customers into optimization cycle, has led to revenue underperformance vs. Azure and Google Cloud vs. 2022.

Exhibit 24: Y/Y Revenue Growth %

Y/Y Revenue Growth % for AWS, Azure, and GCP

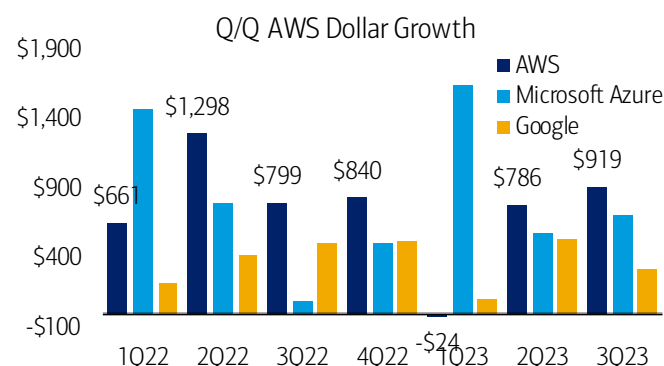


Source: BofA Global Research estimates, company report

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Exhibit 25: Q/Q Dollar Growth

Q/Q Dollar Growth for AWS, Azure, and GCP



Source: BofA Global Research estimates, company report

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Also, despite Amazon's leading market share and partnership with Nvidia, AWS may not have a sourcing advantage for Nvidia GPUs vs. Azure/GCP, and supply of GPUs appears to be a key driver of cloud revenues. For C3Q, Microsoft indicated that Azure revenues accelerated and "growth was ahead of expectations primarily driven by increased GPU capacity and better-than-expected GPU utilization of our A.I. services", while Oracle indicated that "demand for our Cloud Infrastructure and Generative A.I. services is increasing at an astronomical rate", and "as more GPUs become available and we can put those in, we have just really unlimited amount of demand".

Shortages of Nvidia GPUs relative to demand could possibly be eroding Amazon's market share advantage. Cloud customers are forced to optimize their models to "maintain access to the resources they need" (*Wired*), and AWS' Director of Product Management noted "surging demand has caught the industry off guard a bit" and "if there's an ask from a particular customer that needs 1,000 GPUs tomorrow, that's going to take some time for us to slot them in".

Despite competitive concerns around GenAI, GPUs, and market share, Amazon CEO Andy Jassy noted on Q3 earnings that "in our best estimation, the amount of growth we're seeing in the absolute amount of generative A.I. business we're seeing, compares very favorably with anything else I've seen externally". Amazon has developed its own chips and outlined a strong A.I. offering across all three key layers of the Cloud (compute, LLM as a service, and applications). Finally, data in the Cloud should be relatively "sticky", resulting in existing customers utilizing Amazon's A.I. applications.

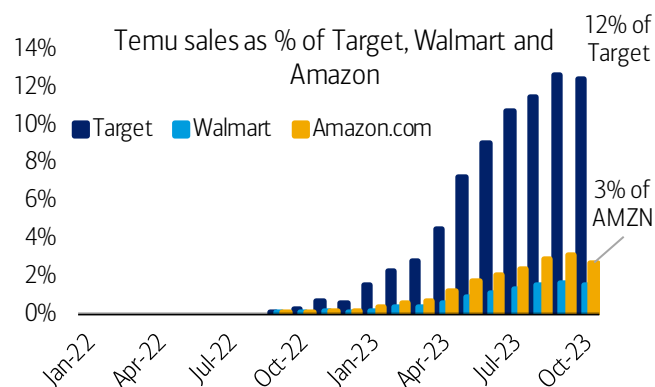
3) Chinese competition growing in 2024

Chinese competitors, including Temu, Shein, and TikTok Shop are expanding rapidly to Western markets (see our report on [Temu's impact on US retailers](#)), with our latest eCommerce survey ([see survey](#)) indicating high intention to shop on China-based sites in 2024. According to our survey, 28% of respondents plan to increase usage on Temu, only behind Walmart (29%) and Amazon (45%), but well above other eCommerce platforms. Based on Second Measure data, Temu GMV has grown rapidly in the US in 2023 and represented 2.7% of Amazon's US GMV and 12% of Target's GMV in October 2023 (which would represent roughly \$12bn in annual Online sales).

Temu's growth has been aided by aggressive marketing (which reportedly reached \$2bn in annual run rate, per CNBC) and Temu has reportedly been more successful than originally anticipated by management. For 2024, Bloomberg reports that TikTok Shop is aiming for \$17.5bn in US GMV for 2024, representing a ten-fold increase y/y from \$1.75bn in 2023. We note that TikTok disputed this report, but did disclose that more than 5mn new US customers purchased an item on TikTok Shop (3% of the platform's user base). Long-term, *The Information* reported that executives at TikTok's parent company, ByteDance, are targeting \$200bn in US GMV (similar in the size of TikTok's Chinese counterpart, Douyin). On a global basis, TikTok reportedly generated \$20bn in global GMV, most of which was generated from Southeast Asia.

Exhibit 26: Temu sales as % of Target, Walmart, and Amazon

Amazon includes Whole Foods and other divisions

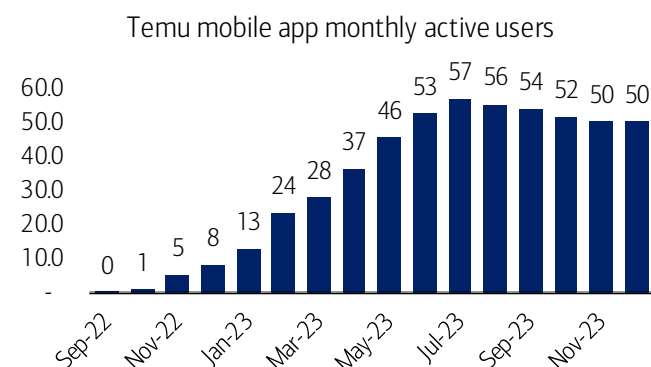


Source: Bloomberg Second Measure

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Exhibit 27: Temu mobile app monthly active users (US)

Temu MAUs in the US reached 50.5mn in December 2023



Source: Sensor Tower

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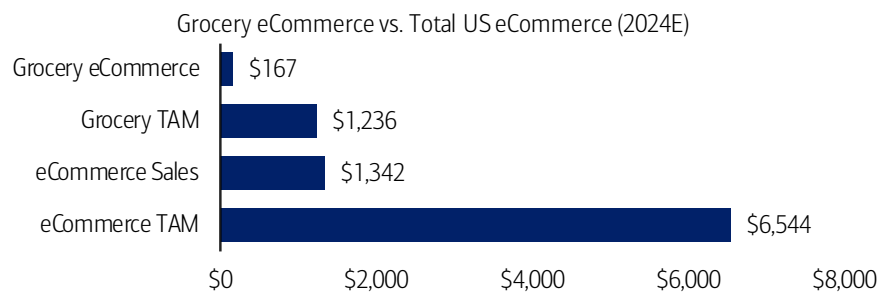
All in, Chinese eCommerce sites may have generated over \$20bn in US GMV in 2023, or just under 2% of the market. We estimate that growth of these sites in 2023 may have been a 1% headwind to Amazon's growth, and with TikTok ramping up its eCommerce efforts in 2024, this headwind could grow in 2024.

4) Potential Grocery investment cycle margin headwind

Grocery represents 12% of total commerce in the US, and is likely a category that Amazon sees as essential to lock in customers. Amazon has had challenges in the category, and spent 2023 reworking its grocery strategy. In February, Amazon's CFO indicated that "grocery has significant opportunity" but grocery expansion will be paused as Amazon is "doing a fair bit of experimentation [with Amazon Fresh] to find the format that we think resonates with customers, is differentiated in some meaningful fashion, and where we like the economics". For 2024E, we project \$167mn in Grocery eCommerce in the US, representing approx. 12% of \$1.3 trillion in total US eCommerce.

Exhibit 28: Grocery eCommerce vs. Total US eCommerce (2024E)

Grocery represents 12% of total commerce in the US



Source: BofA Global Research estimates, Incisiv, US Dept. of Commerce

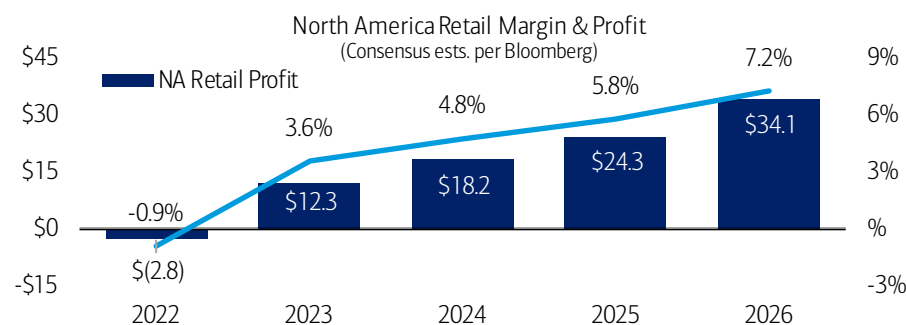
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Amazon's grocery initiatives could be coming off a pause. In November, Amazon announced grocery delivery and free pickup through Amazon Fresh is expanding to customers without a Prime membership (which is free for orders over \$100). Once fully launched to include Whole Foods (coming "soon"), customers will have access to two-hour delivery in 3,500+ cities across the US. In addition, Amazon disclosed that Fresh store formats tested in Chicago will be expanding to three stores in LA after receiving positive feedback, with more stores expected in 2024 as Amazon gradually builds out its physical presence. Amazon's announcement suggests the company believes it has found a more favorable store format, and October's adjustment to its free delivery threshold (to \$100 from \$150) signals the company may have improved delivery economics to a point that justifies more investment.

So far, Amazon's grocery investment appears to be more measured, as the company seems to have a regional approach and is actively refining the economics of its store formats before making a bigger national push. However, the Street is expecting significant North America margin improvement in 2024, and any signs of material investment spend in 2024 or planning for new spend in 2025 could be a sentiment headwind for the stock.

Exhibit 29: North America Retail Margin & Profit (per Bloomberg)

Street is at 4.8% for Amazon's North America margin in 2024, reaching 7% by 2026



Source: BofA Global Research, Bloomberg

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5) Heightened regulatory scrutiny

New FTC antitrust lawsuit vs. Amazon

In September, the Federal Trade Commission (FTC) and 17 state attorneys general filed an antitrust lawsuit that alleges 1) Amazon is a monopoly, and 2) inflates consumer prices via pricing rules and seller fees (see note: [Expected FTC lawsuit now a reality](#)). The FTC argues that Amazon lowers search rankings of merchants who offer lower prices on other platforms, and unfairly favors sellers in rankings (and buy box placement) that use the Fulfillment by Amazon (FBA) & advertising services.

In response, Amazon indicated that the company's policies and actions fell short of FTC legal characterization on predatory pricing, outlined in an article as "consumers are harmed only if below-cost pricing allows a dominant competitor to knock its rivals out of the market and then raise prices to above-market levels for a substantial time". We cannot speculate on the possibility of trial outcomes, though an outcome will likely not be reached another 2-3 years based on the Google DOJ trial timeline and we expect Amazon will aggressively defend allegations.

Digital Markets Act (DMA) and Digital Services Act (DSA)

In Europe, the DMA/DSA aims to promote competition by limiting larger platforms and marketplaces. Once fully in force, the DMA will place measures on the combination of data collected from two different services belonging to the same company, protections for 3P business users, limits on self-preferencing 1P products, and more. Amazon could see some limitations on data use and 1P product placement in the marketplace, which could impact advertising and eCommerce revenues. The DSA regarding Amazon also restricts ad targeting and self-preferencing that could slow sales growth in European markets. Overall, however, we expect a modest impact given that roughly 75% of Amazon's sales are US-based.

AI developments

We think a large focus for regulators in 2024 will be around AI, particularly for targeting advertising and A.I. generated media. In October 2023, US President Biden announced an executive order asking all A.I. developers to share safety results and critical information with the US government. We would expect regulation to emerge to establish general standards and best practices for detecting AI-generated content and authenticating official content. Companies have started to respond; for example, Bloomberg reported in November that YouTube will require A.I. disclosures for video content in 2024. Regulation around A.I. in 2024 will be very active.

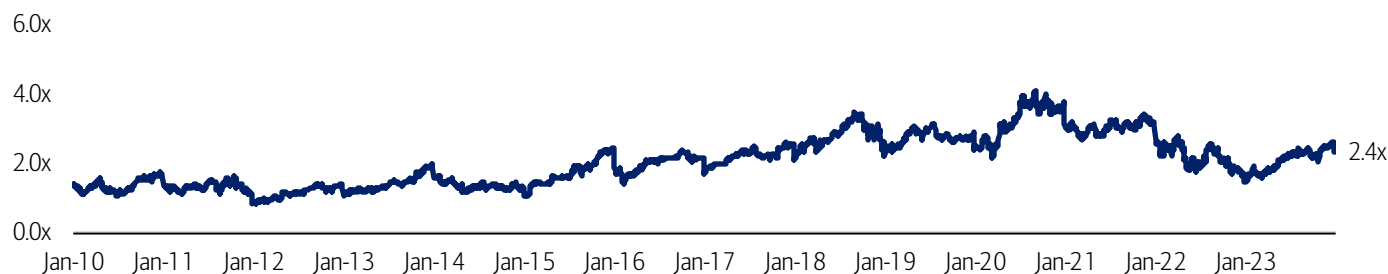
Valuation

Valuation vs. History

Amazon is currently trading at 2.4x 2025 sales, a multiple near the middle of Amazon's historic range of 1.0x-4.0x. We argue the historical P/S multiple should be increasing over time given positive third-party sales growth (reported on a net basis), a growing AWS revenue contribution, and expanding gross profit margins driven by high-margin advertising revenues.

Exhibit 30: Amazon 2025 P/S multiple

Amazon trades at 2.4x 2025 P/S, above the historical average of 2.1x sales since 2010 but within the historical range of 1.0x-4.0x



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For EBITDA, Amazon currently trades at 11.8x 2025E EV/EBITDA, which compares to Amazon's historical range of 8.5x-30x. While the multiple has rebounded from its low in late-2022, Amazon still trades below the historical average of 17.5x since 2010.

Exhibit 31: Amazon 2025 EV/EBITDA multiple

Amazon trades at 11.8x 2025 EV/EBITDA, well below the stock's historical average of 17.5x since 2010



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For GAAP P/E, Amazon currently trades at 31x 2025E GAAP P/E. This is below the historical average of 77x since 2010 and 56x since 2018.

Exhibit 32: Amazon 2025 EV/EBITDA multiple

Amazon trades at 31x 2025 GAAP P/E, vs. stock's historical average of 56x over the last five years



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Raising our PO to \$185 based on higher comp multiples

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. **We see most the upside to AWS and advertising multiples we apply below.**

Our PO of \$185 for Amazon represents 2.8x P/Sales, a multiple in the upper half of Amazon's historical range of 1.0-3.5x, 14x Street 2025 EBITDA and 37x Street GAAP EPS.

Exhibit 33: Amazon SOTP

Our PO of \$185 for Amazon implies 2.8x P/Sales compared to Amazon's historical range of 1.0-4.0x

Metric	2025E	Comps (EV / Revenue)
AWS Revenue	\$121,599	
<i>P/S Multiple</i>	<i>7.5x</i>	<i>SaaS Comps 8.4x</i>
AWS Valuation	\$911,990	
AWS per share	\$86	
1P Retail Revenue (Includes Subscription)	\$336,652	
<i>Price / 1P Retail Revenue Multiple</i>	<i>1.0x</i>	<i>Retail Comps 1.1x</i>
First-Party Retail Valuation	\$336,652	
1P Retail per share value	\$32	
Third-Party Revenue	\$181,158	
<i>P/ 3P Revenue Multiple</i>	<i>2.5x</i>	<i>Third-Party Marketplace 2.7x</i>
Retail Valuation	\$452,895	
3P Retail per share value	\$43	
Advertising Revenue	65,689	
<i>P/S Multiple</i>	<i>4.0x</i>	<i>Online Ads 5.3x</i>
Advertising Valuation	\$262,755	
Amazon Advertising per share	\$25	
Implied market cap (\$mn)	\$1,964,292	
Total Amazon Value	\$185	
Shares outstanding	10,598	

Source: Bloomberg, BofA Global Research estimates

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Hypothetical upside case valuation

Higher revenue growth, leverage on AWS reacceleration, and greater confidence in sustainable retail margins could drive multiple expansion. Also, moderating inflation could decrease perceived risk around estimates and lower discount rate expectations. If Amazon were to grow 14% in '24/'25 (vs. our 12% est) with AWS upside, we think 3.0x 2025 sales multiple could be achievable, representing a hypothetical stock price of \$210. This would represent to 39% upside from the current stock price.

Hypothetical downside valuation

A consumer slowdown following rate increases in 2023, signs of a new investment cycle, or growing perception of AWS lagging cloud peers in A.I. capabilities could weigh on growth and/or pressure Amazon's multiple. A lower 10% y/y revenue growth rate, and multiple compression to a 1.7x P/S multiple is possible (comparable to the P/S multiple exiting 2022), which would represent a hypothetical stock price of \$111, 27% downside from current levels.

Exhibit 34: Hypothetical scenario valuations

Our upside scenario yields \$210 per share, implying 20pprox.. 40% upside from Amazon's current price

Upside Scenario Valuation	2023	2024	2025	Downside Scenario Valuation	2023	2024	2025
Revenue	570,669	650,562	741,641	Revenue	570,669	627,736	690,509
Growth rate	11%	14%	14%	Growth rate	11%	10%	10%
Revenue multiple			3.0x	Revenue multiple			1.7x
Market cap			2,224,924	Market cap			1,173,866
Shares			10,598	Shares			10,598
Hypothetical Price			\$210	Hypothetical Price			\$111

Source: BofA Global Research

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**Exhibit 35: AMZN Comp Table**

AMZN is trading at 11.8x 2025E EV/EBITDA

	1/10/2024	Revenue Growth		Gross Margin		EBITDA Margin		EV/ Revenue		EV/EBITDA	
Online Media	Price	2023	2024	2023	2024	2023	2024	2024	2025	2024	2025
Meta	\$370.47	15%	13%	81%	80%	30%	26%	6.1x	5.5x	10.6x	9.0x
Alphabet	\$142.28	9%	12%	61%	61%	37%	33%	6.0x	5.4x	11.8x	10.2x
Pinterest	\$37.76	9%	17%	77%	78%	14%	12%	6.5x	5.5x	24.9x	17.7x
Snap	\$17.37	0%	14%	55%	55%	-24%	-21%	5.5x	4.8x	102.7x	45.2x
Average		8%	14%	69%	69%	14%	13%	6.0x	5.3x	37.5x	20.5x
SaaS	Price	2023	2024	2023	2024	2023	2024	2024	2025	2024	2025
Adobe	\$591.03	10%	11%	89%	89%	39%	35%	12.4x	11.0x	26.8x	24.2x
Intuit	\$608.70	13%	12%	82%	81%	28%	25%	10.9x	9.7x	27.1x	23.7x
Microsoft	\$382.77	6%	15%	69%	68%	50%	43%	11.5x	10.3x	22.8x	19.6x
RingCentral	\$33.28	11%	9%	78%	79%	-17%	-15%	2.0x	1.8x	7.1x	6.5x
Salesforce	\$264.13	17%	12%	79%	79%	19%	17%	7.4x	6.7x	18.1x	15.8x
Service Now	\$714.30	23%	21%	82%	82%	10%	8%	13.4x	11.0x	38.8x	30.4x
Splunk	\$152.49	36%	15%	82%	82%	-2%	-2%	6.8x	6.0x	24.0x	19.4x
Veeva	\$193.89	16%	10%	74%	75%	24%	21%	12.8x	11.0x	44.6x	36.9x
WorkDay	\$276.81	21%	17%	80%	80%	3%	2%	9.5x	8.2x	33.8x	28.0x
Average		17%	14%	79%	79%	17%	15%	9.6x	8.4x	27.0x	22.7x
Third-Party Marketplaces	Price	2023	2024	2023	2024	2023	2024	2024	2025	2024	2025
Alibaba	\$71.41	2%	9%	38%	38%	18%	17%	0.8x	0.8x	6.0x	5.1x
Allegro	\$31.45	16%	13%	NA	NA	-3%	-3%	3.3x	2.9x	12.7x	10.2x
eBay	\$42.56	3%	2%	72%	72%	29%	28%	2.5x	2.4x	8.9x	8.3x
Etsy	\$74.72	9%	5%	71%	71%	-20%	-19%	3.6x	3.3x	12.4x	11.0x
Mercado Libre	\$1,598.16	35%	24%	51%	52%	11%	9%	4.6x	3.7x	23.1x	17.7x
PinDuoDuo	\$149.19	79%	39%	64%	62%	14%	10%	3.8x	3.0x	14.1x	9.3x
Average		24%	15%	59%	59%	8%	7%	3.1x	2.7x	12.9x	10.3x
Retail	Price	2023	2024	2023	2024	2023	2024	2024	2025	2024	2025
Advanced Auto Parts	\$60.98	2%	2%	41%	42%	14%	14%	0.6x	0.6x	6.9x	6.4x
Autozone	\$2,537.16	8%	8%	52%	53%	25%	23%	3.0x	2.8x	11.9x	11.6x
Best Buy	\$75.77	-11%	-6%	22%	22%	8%	8%	0.5x	0.5x	6.5x	6.6x
Macys	\$18.98	1%	-6%	38%	38%	12%	13%	0.5x	0.5x	3.2x	3.2x
Target	\$144.09	3%	-2%	27%	27%	6%	7%	0.8x	0.8x	10.0x	9.4x
TJ Max	\$94.14	1%	9%	30%	30%	16%	14%	2.1x	2.0x	15.7x	14.5x
Walmart	\$161.29	6%	6%	24%	24%	6%	5%	0.8x	0.7x	12.3x	11.6x
Average		1%	2%	33%	34%	12%	12%	1.2x	1.1x	9.5x	9.0x
Amazon	Price	2023	2024	2023	2024	2023	2024	2024	2025	2024	2025
Amazon	\$153.73	12%	12%	47%	48%	11%	10%	2.6x	2.4x	13.7x	11.8x

Source: BofA Global Research, Bloomberg

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.

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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
	Electronic Arts	EA	EA US	Omar Dessouky, CFA
	Expedia	EXPE	EXPE US	Justin Post
	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

US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Etsy, Inc.	ETSY	ETSY US	Curtis Nagle, CFA
	Instacart	CART	CART US	Justin Post
	Playtika	PLTK	PLTK 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
	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

Quality of Earnings

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

Valuation Toolkit

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

EV / EBITDA

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

Numerator

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

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

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

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

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

Basic EBIT + Depreciation + Amortization

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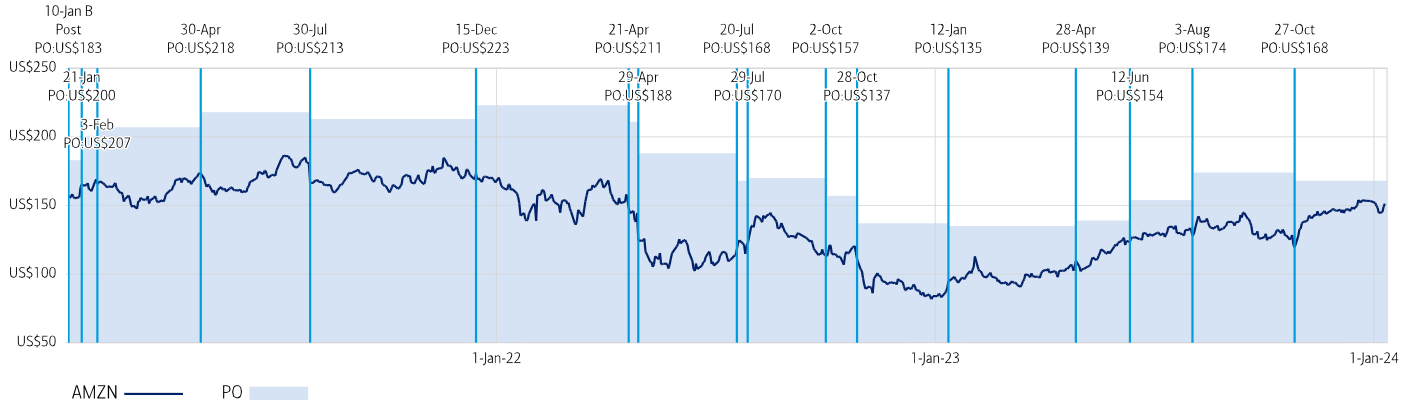
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Amazon.com (AMZN) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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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%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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