



## Amazon.com, Inc. (AMZN)

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# Table of Contents

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## Amazon

Section I: Company Overview

Section II: Investment Thesis

Section III: E-Commerce and Competitors

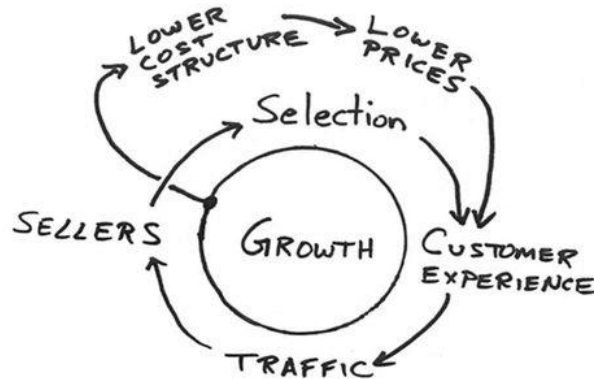
Section IV: Amazon Web Services

Section V: Amazon Prime

Section VI: Valuation

# Company Overview

It's all about the long-term, "scale is central to achieving our business model"



Source: Jeff Bezos, September 2001

## Virtuous Cycle of Growth

- Sales volume lead to economies of scale, lower prices, greater selection and choice, better customer experiences, and thus higher sales volumes
- Bezos has emphasized that fast delivery, vast selection, and customer convenience are the tenants of the company that will never change

## Key figures

Public Market Overview	\$AMZN
Market Cap	\$155,401.32
Cash	\$6,883.00
Net Debt	\$3,784.00
EV	\$150,225.69
FD S/O	463
Current Share Price	\$335.64
52 week high	\$408.06
52 week %	82%

## Business Model Audit and Evolution

- "Sell all, carry few" to "Sell all, carry more"
- Estimated 40% of unit sales are from 3P retailers
- Positions Amazon strategically to grow beyond the limits of its own online store
- Amazon doesn't sentimentalize the icons of its past, business models become outdated
- Low margins a driver of competitive moat

# Management overview

Jeff Bezos

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## Vision

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- Interested in free cash flow, not margins
- Reinvesting in Amazon to strengthen the diversification and competitive advantage of each business vertical
- To take profit out of the business is to waste opportunity
- *"If you're willing to invest on a seven-year time horizon, you're competing against a fraction of people"*

## Quick Bio

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### Chairman & CEO

- Started career on Wall Street at Bankers Trust
- Founded Amazon.com in 1994 in his Seattle garage
- Considered critical to the business' success and dominates the company
- One of the few internet CEO's remaining after the tech bubble
- Substantial stock ownership (18%)
- No Amazon employee receives more than \$160K in cash compensation

## Managerial Style

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- Visionary and micromanager
- Quant geek, uses metrics for every decision
- Typical view on the street is that Bezos is so focused on the customer he forgets about the shareholder

# Amazon Everywhere

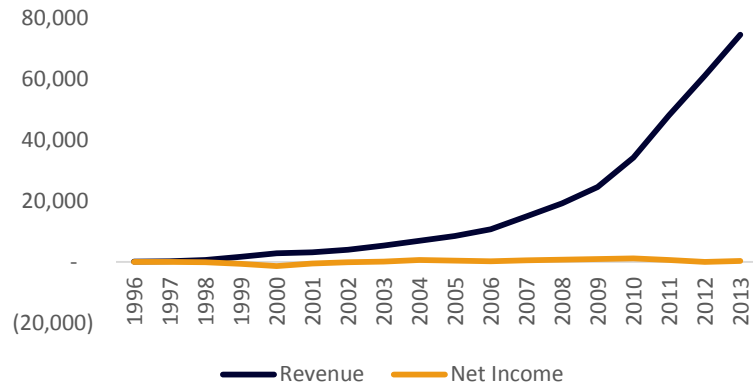
## Or what's masking EBITDA?



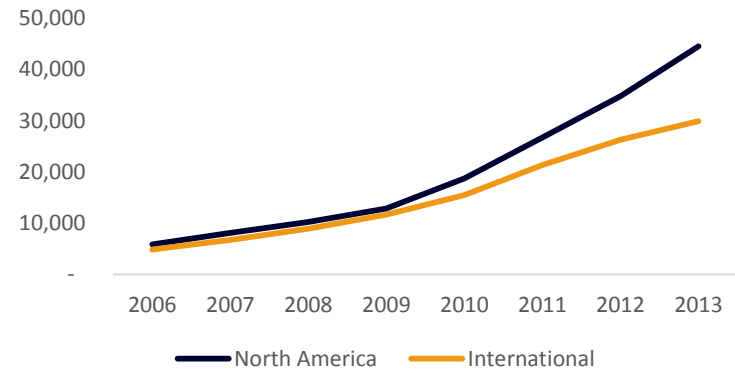
# Introduction

## Amazon is a bundle

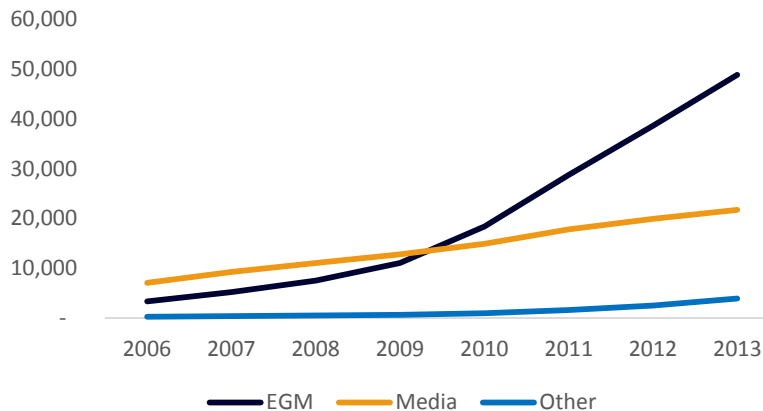
### Amazon since launch (\$m)



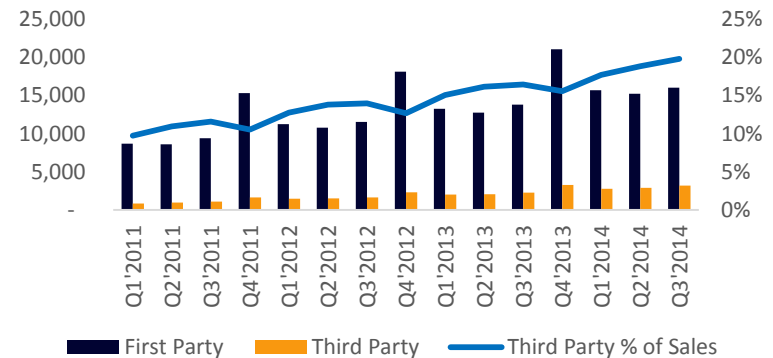
### Amazon revenue by region (\$m)



### Amazon segment revenue (\$m)



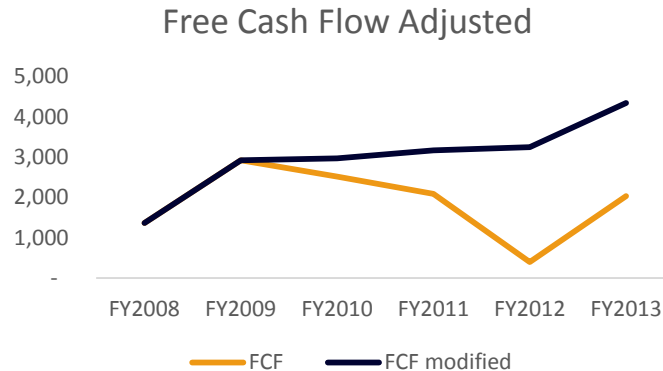
### Amazon third party sales (\$m)



# Where is this cash going?

Increase in CAPEX driven by many levers

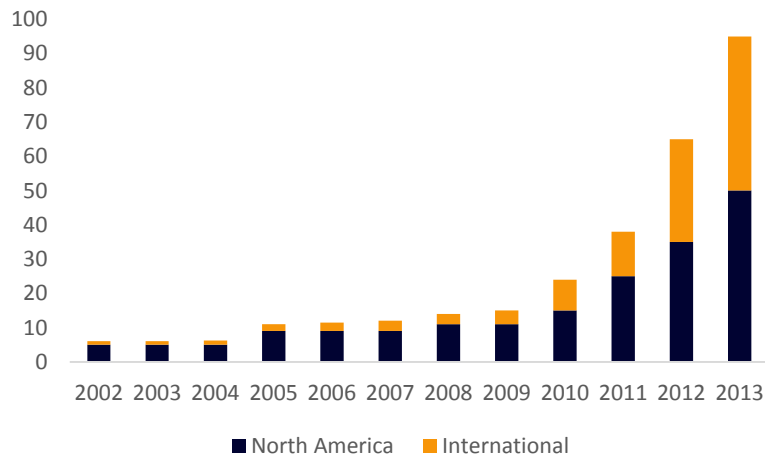
## \$3BN in extra spending TTM



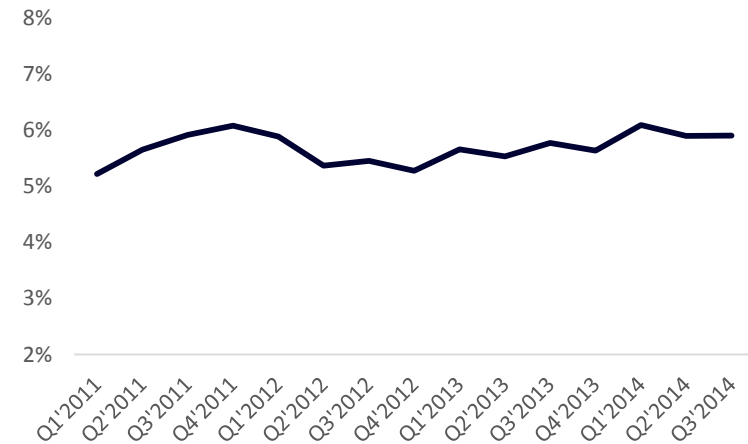
## Potential Uses of Cash

1. More capacity for more products, including 3P products (40% of units sold)
2. Proximity, same day shipping
3. Amazon Web Services
4. Existing operations

## Amazon property (sq ft, in thousands)



## Shipping costs as a % of shippable GMV



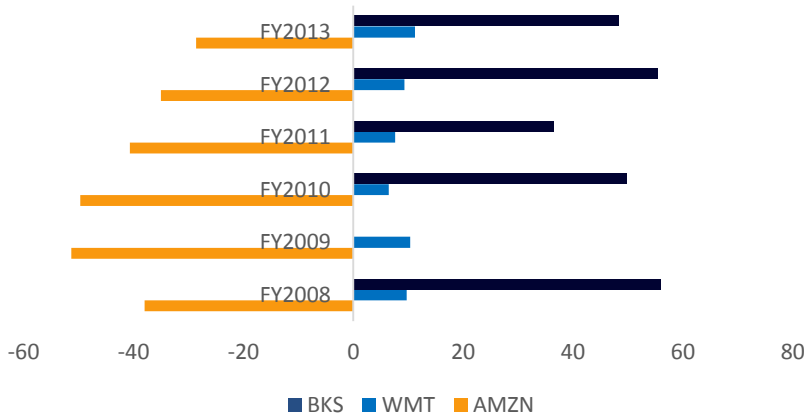
# Operating metrics

## Amazon's operating cycle driven by strong AP management

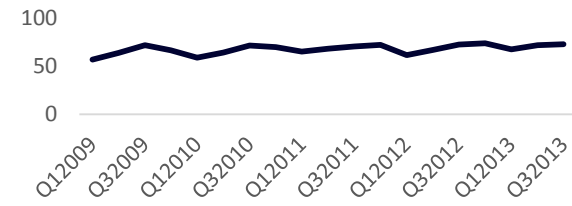
### Cash Conversion Cycle

- Key metric of Amazon's cash generating prowess
- Decreasing due to more stringent supplier contracts and higher amounts of receivables
- Incredibly high leverage and pricing power over suppliers

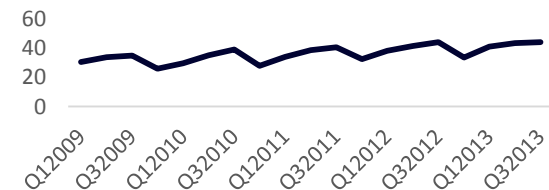
### Cash Conversion Cycle (Days)



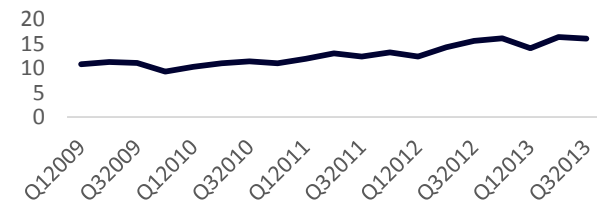
### Days payable outstanding



### Days inventory outstanding



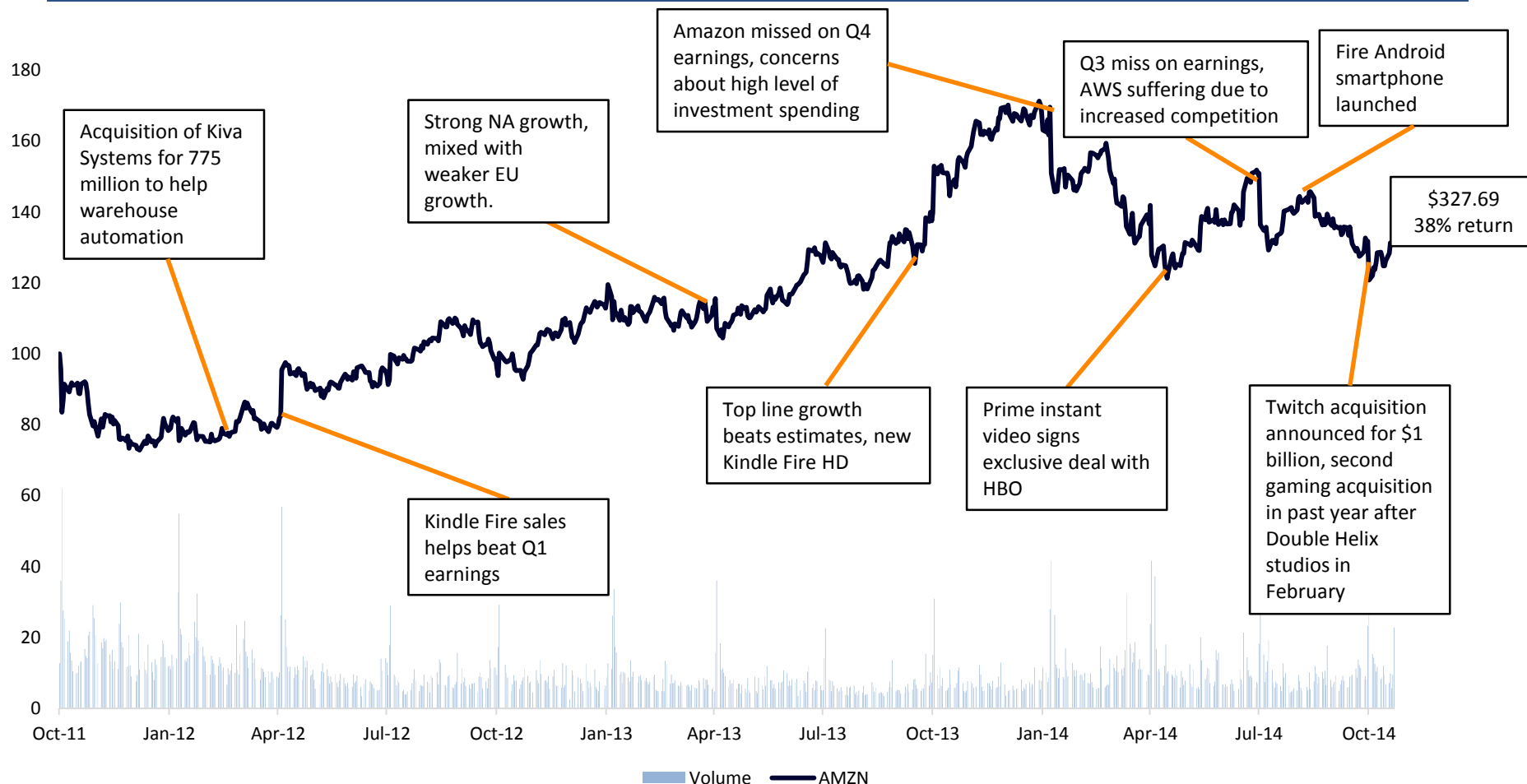
### Days receivables outstanding





# Annotated Stock Chart

Amazon's Performance over the last 3 years.



## Investment Thesis

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# Investment Thesis

## LT Value Proposition Exceeds That of Leading Retailers

- TMT believes Amazon's long term cost structure is more attractive than the world's largest existing retailers
- Amazon is highly scalable, and can operate with lower fixed **costs, saving on real estate, distribution, human capital**
- Barriers to entry are very significant
  - Requires **heavy financial backing** to effectively compete with Amazon's existing infrastructure
  - Demand side switching cost are supported by **growing Amazon Prime program**
- Amazon believes in LT value and will sacrifice profitability today to ensure it is the best positioned company to sell anything to anyone

## E-Commerce Has More Room To Grow

- Amazon itself is an enabler of global E-Commerce growth; **customers buy more when E-Commerce is more accessible**
- As a customer-focused company, Amazon invests in its network to win market share from brick & mortar competition
- U.S. E-Commerce will grow CAGR 18% from 2013-2018; 21% for the global market
- Amazon in #1 or #2 in key growth markets: U.S, U.K., Germany, Australia, Japan, Canada, France, Italy, Spain
- Amazon can become the largest buyer's club in the world through value-adding services of Amazon Prime

## Growth Today = Value Tomorrow

- Strength in E-Commerce alone justifies higher valuation; **1P segment trades at implied discount to comparables**
- Value will be unlocked in the operating leverage of Amazon's LT business model
- **Successful execution will lead to mature multiple that exceeds Walmart, Target**
- Changing mix in segment composition will lead to gross margin expansion and profitability
  - **3P GMV to overtake 1P GMV by 2015 where 3P has better margins**
- With growth in AWS and 3P E-Commerce, Amazon evolves into a service company warranting multiple expansion

TMT recommends **BUY** on long term outlook with price target of **\$568**

# Earnings call transcripts

## Amazon using a more selective approach for future investments

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### Significant tone shift

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- AMZN is heavily analyzed
- Important to note the shift in analyst focus in earnings call
- AMZN should be analyzed under a different lens
- Quarter 3 2014 earnings call marked a significant tone change
- CFO Tom Szkutak mentioned the need to be 'selective' about opportunities and investments four separate times

### International Investments

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- Heavy focus on why Amazon is investing so much in international growth, namely China, when domestic growth is so much more significant
- Over the last few quarters, Amazon has repeated its commitment to investment in China to increase fulfilment capacity and deliver lower-costs.

### Market's View

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- Emerging markets represent a significant growth opportunity
- Amazon Prime contributes to customer loyalty
- AWS unlikely to drive valuations

### Annual Shareholder Letters

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- Always include the 1997 shareholder letter as a mantra of what Amazon will always be
  - "It's all about the long-term"
  - "Earnings don't always translate into cash flows"
  - 452 goals were set in 2007 – none included profit or margins
- 2013 was the first letter including mentions of CSR and employee empowerment

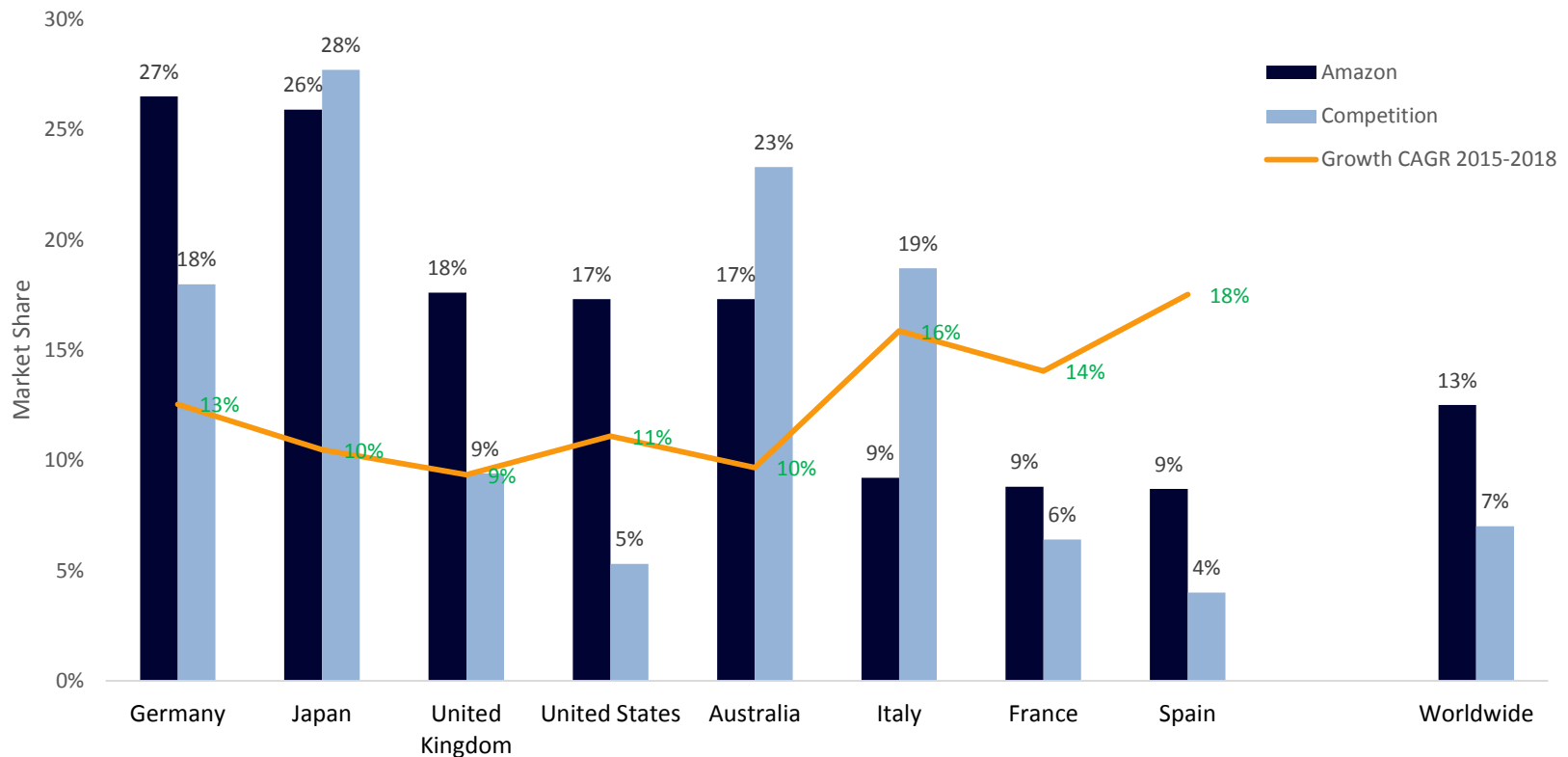
## E-Commerce & Competitive Landscape

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# E-Commerce worldwide

## Amazon's core markets

- Amazon is the dominant player in its core markets, which represents 41.7% of global market.
- Europe is still underpenetrated while showing high growth.
- Strong recurring revenue base for Amazon.
- Targeted investment may increase Amazon's market share where it is already #1 or #2.
- Increasing Prime membership should help improve margins in these geographies.

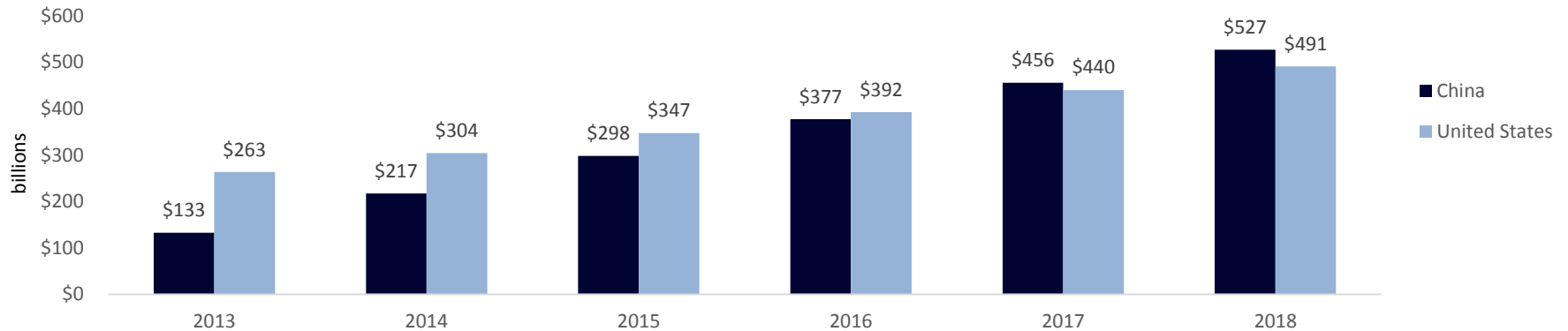


Source: Morgan Stanley.

# E-Commerce in China

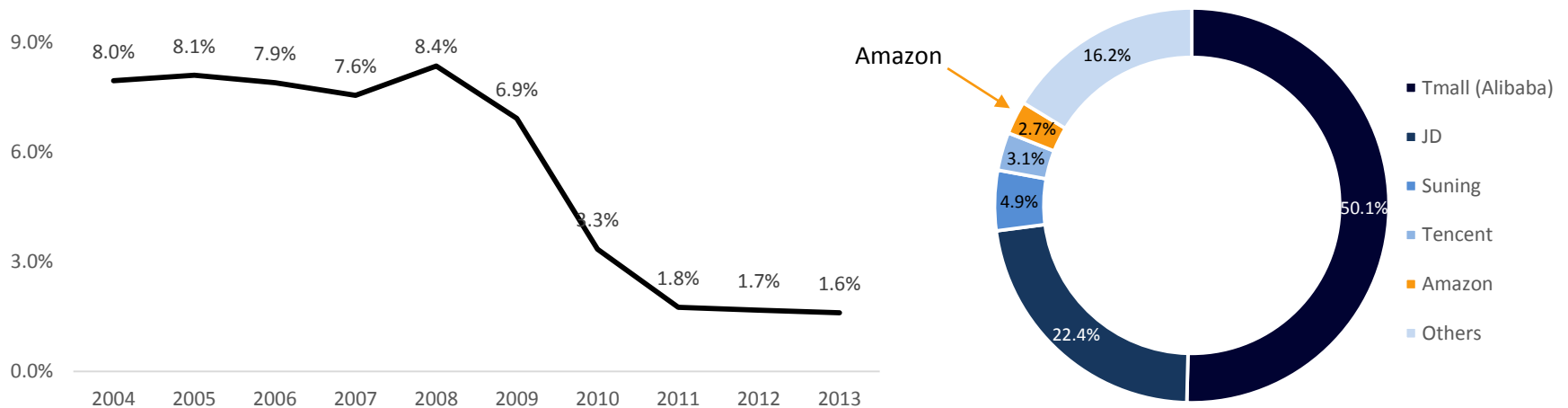
## Amazon: A marginal player

### China E-Commerce size



Source: eMarketer.

### Amazon's China Market Share total E-Commerce and B2C sales



Source: Morgan Stanley

Source: Observer Solutions. 2014.

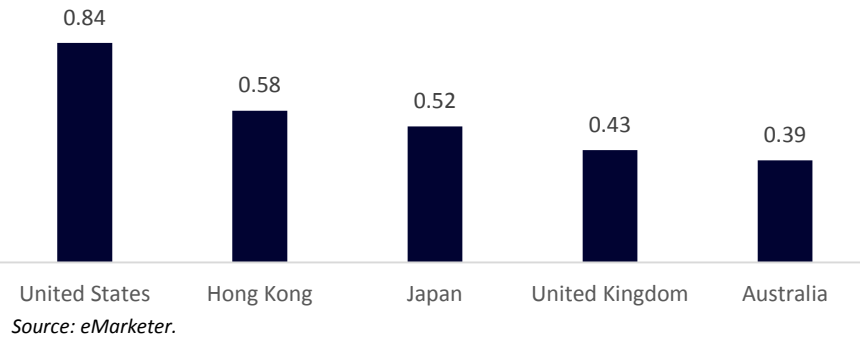
# E-Commerce in China

## Amazon: Cross-border shopping

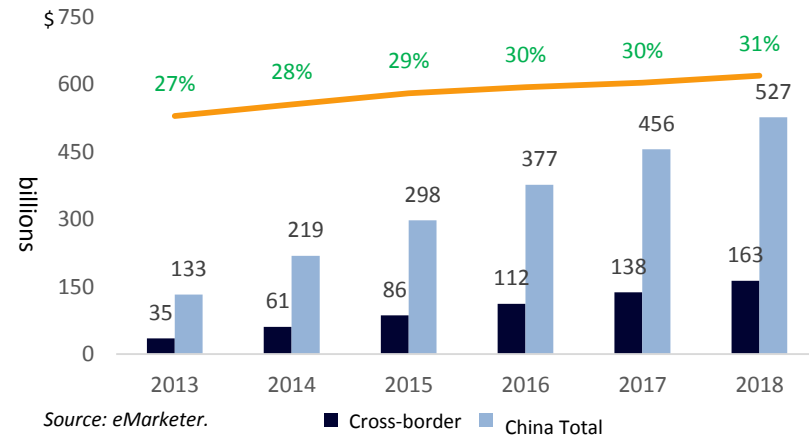
### Still investing in China

- China is the largest e-commerce importer in the world
- Announced an agreement with Shanghai FTZ on August 20<sup>th</sup> to build a logistics and warehouse center in the SFTZ.
- Allows import of foreign goods and export of Chinese products.

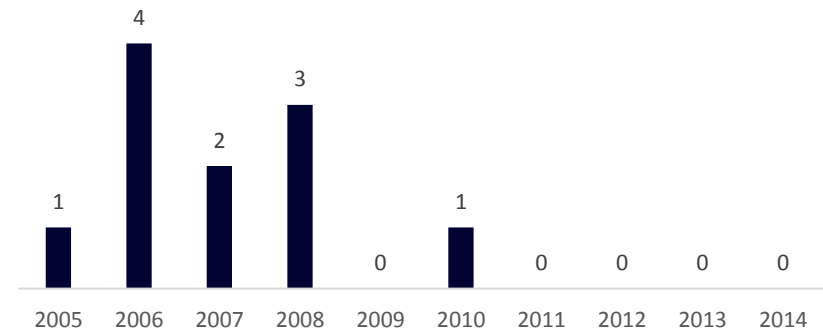
### Preferred shopping destination



### China cross-border & total E-Commerce



### References to China during earnings call





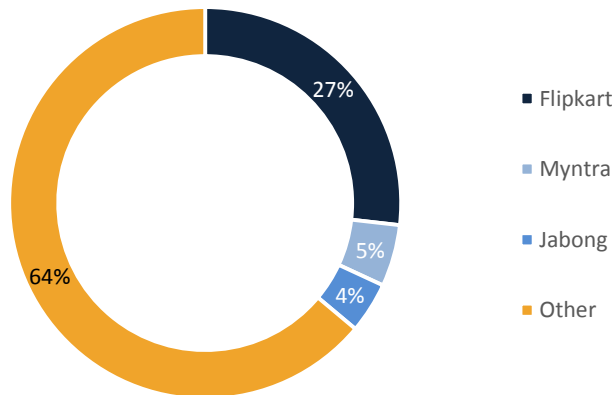
# E-Commerce in India

## Another target market for Amazon

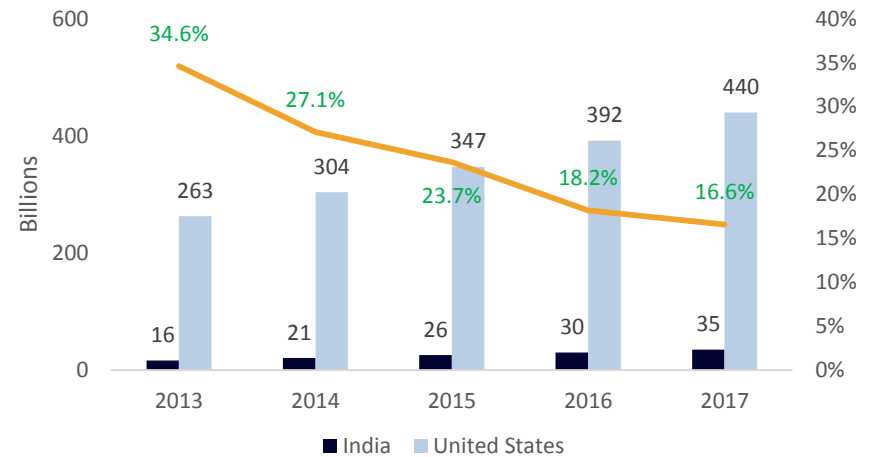
### Investment in India

- Launched in June 2013, with an announced another 2 billion dollar investment this July.
- Operations are similar to eBay and Alibaba, where sales are exclusively from 3p due to legislation.
- Legislation is starting to relax as the government approved 1p sale of products manufactured in India.

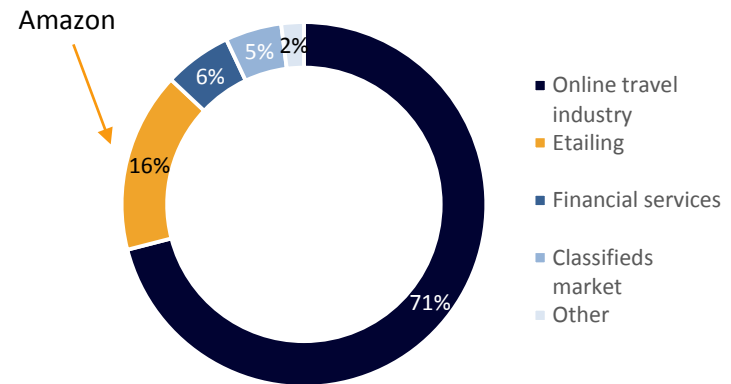
### Market Share



### Still a small E-Commerce player



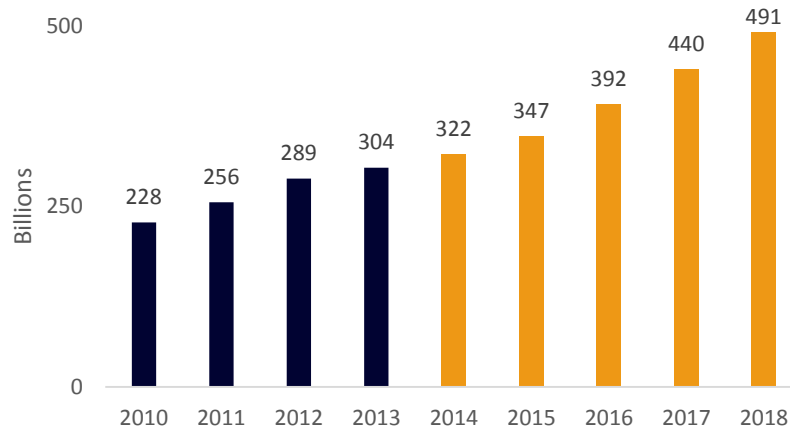
### India E-Commerce revenue share



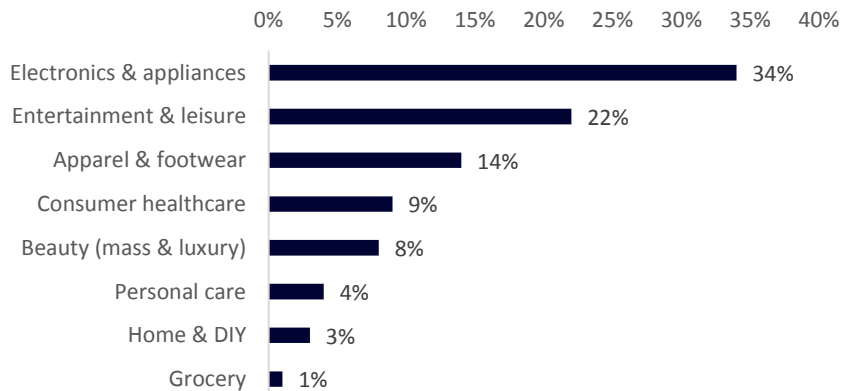
# E-Commerce Segment

Amazon performs extremely well in its core segment

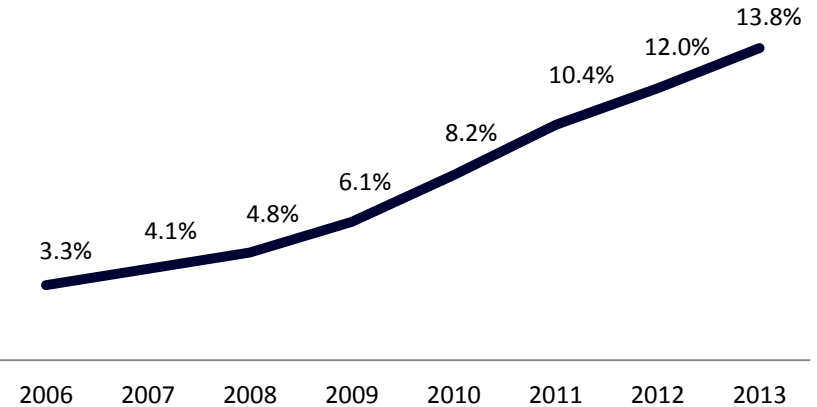
## Industry Size in the U.S.



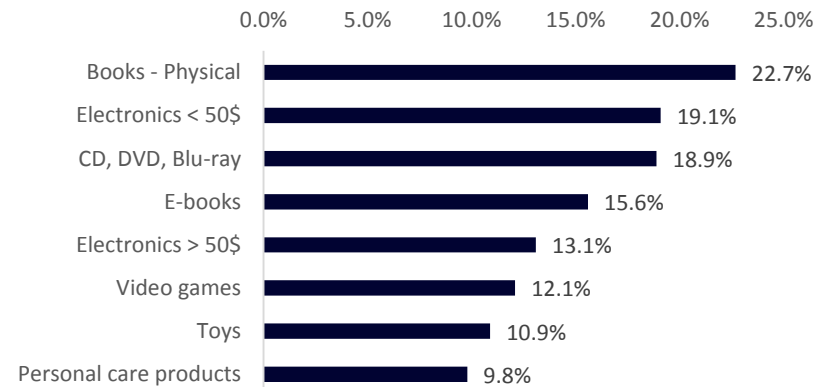
## US ecommerce sales by category



## Amazon's total U.S. Market Share



## What Amazon consumers bought



# E-Commerce Segment

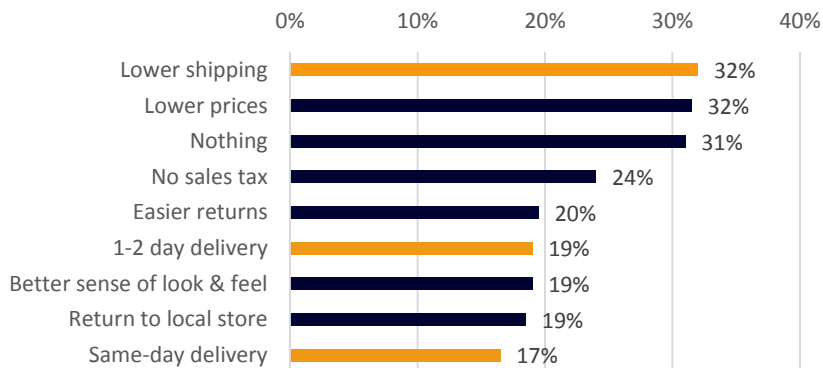
Shipping expertise a key differentiator for Amazon

Fulfillment centers in major city centers

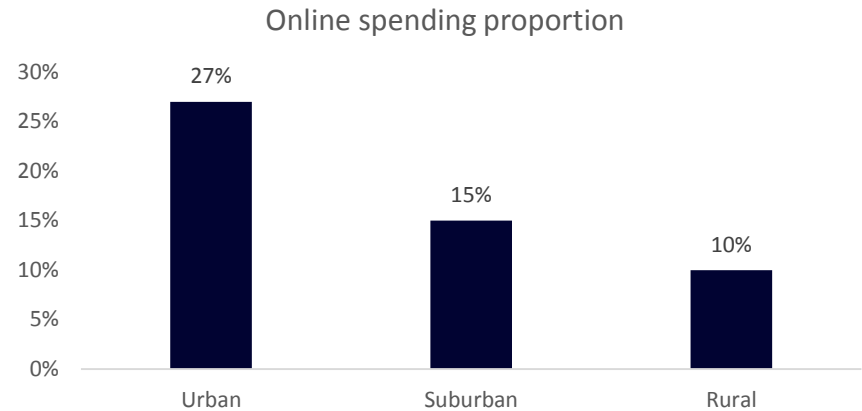


Low shipping drives growth in existing customers

What would make you buy MORE online?

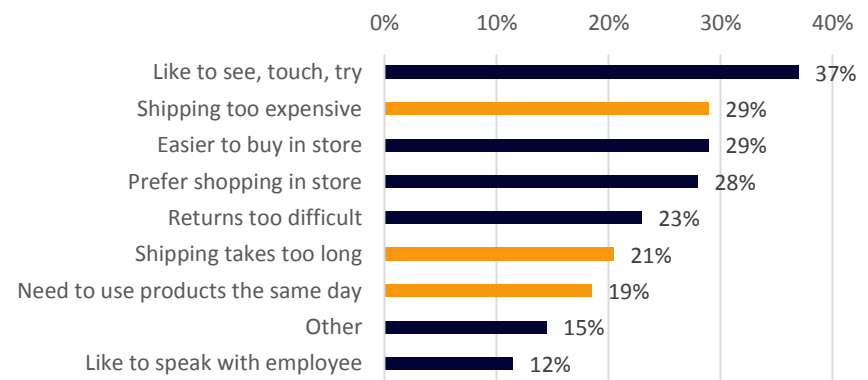


Urban population spends more online



...and brings in new ones

Why do you NOT BUY more online?

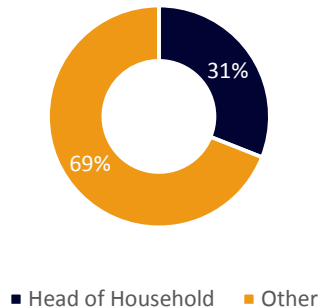


# E-Commerce Segment

## Amazon attacking head of household category

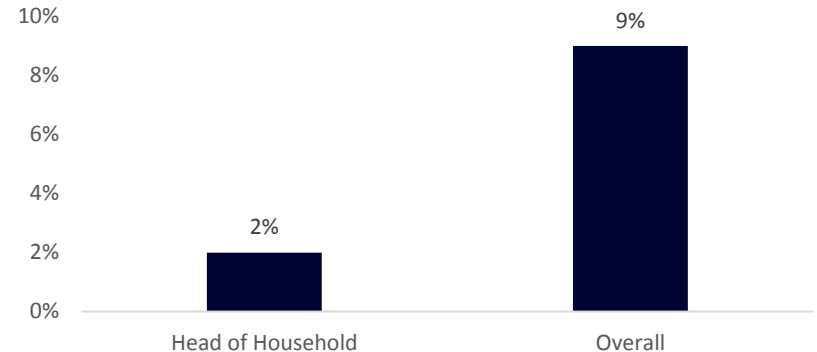
HoH is the highest expense of US households

US retail sales 2013



HoH has the lowest ecommerce penetration

Ecommerce penetration by category



Amazon launched many programs to address this issue

- **Amazon Fresh:** Provides same-day delivery of grocery and around 500k non-grocery items. Available in Seattle, San Francisco and Los Angeles for 299\$/year.
- **Subscribe & Save:** Provides customers with discounts and free shipping on household related items and gives discounts with more frequent orders.
- **Amazon Mom:** Similar to Amazon Fresh but available at no-charge (with a Prime membership). Offers rebates on diaper subscriptions and other health, personal care, and baby items.
- **Amazon Prime Pantry:** Added benefit exclusive to Prime members, can order up to 45 pounds or four cubic feet of household goods in a single box for an additional 5.99\$ charge.
- **Amazon Dash:** Allows to reorder over 500k items within Amazon Fresh by scanning the barcode.

# Competitors

## Wal-Mart

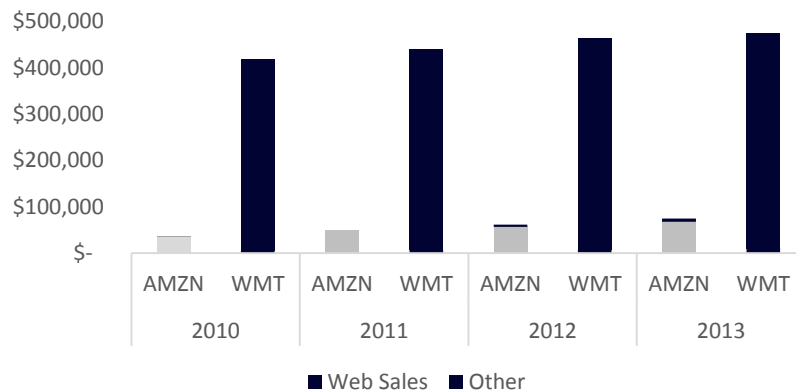
### Company Overview

- Largest retailer in the world that operates via three entities: Wal-Mart US (59%), Sam's Club (12%), and Wal-Mart International (29%).
- International operations in 26 countries.
- Biggest US grocer: groceries account for 56% of its \$279B US sales.

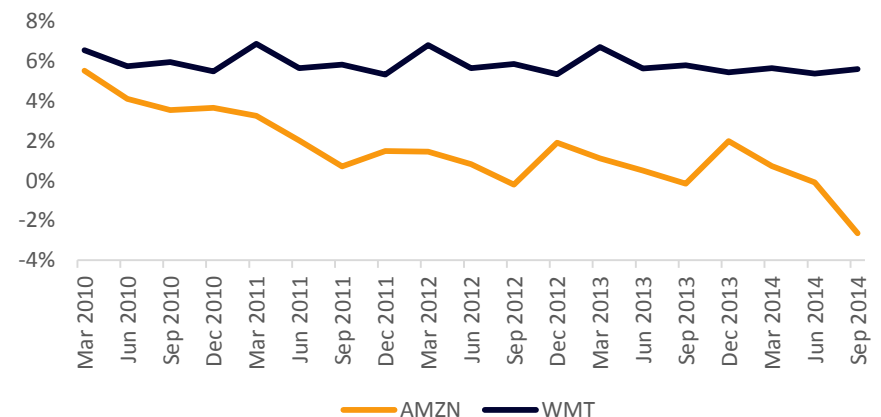
### Financial Summary

Share Price	\$82.38
Market Cap	\$265.5B
Total Debt	(\$55.7B)
Total Cash	\$6.7B
Net Debt	\$(49.0B)
Minority Interest	\$4.9B
Enterprise Value	\$319.4B
EV/LTM EBITDA	9.0x

### Revenue from web sales



### Operating Margin



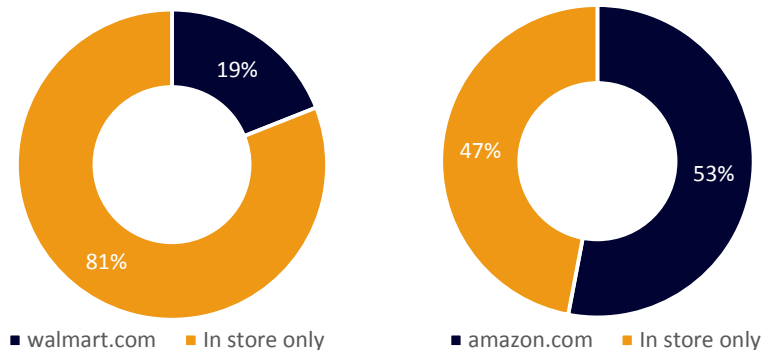
# Competitors

## Why Amazon Over Wal-Mart?

### Logistics vs shipping

- Walmart has over 4000 stores in the US and wants to use them as small warehouses for same-day shipping
- Execution of shipping from those stores is less precise and more costly in labor and shipping costs vs warehouses
- One advantage is that using pick-up in-store option can increase traffic and in-store sales
- Shipping time accuracy is the most important request when shopping online

### Even Wal-Mart shoppers prefer amazon.com



### Technology hurdles

- Amazon has well-established technology to suggest items to users and help them decide what item to buy: predictive analysis, customer reviews, flexible pricing, Amazon Prime.
- Wal-Mart needs to showcase to its online customers what they have in store and guide them in their shopping
- Using a store inventory system has drawbacks: what if an item is in a customer's cart and no longer available?

### Path to purchase of multichannel retailers



# Competitors

## Ebay

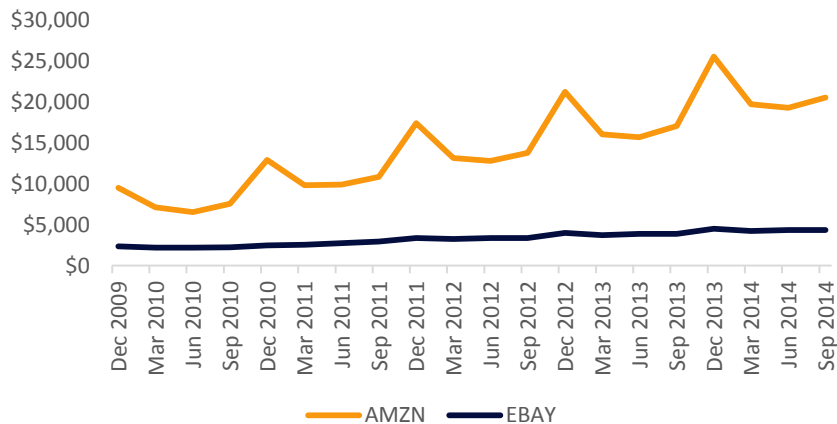
### Company overview

- Ebay connects buyers and sellers but does not own inventory => Marketplace more than seller.
- Ebay makes money in different ways:
  - Fees for listing an item
  - Fee from the seller for the final sale price
  - Fee to increase item visibility
  - Paypal conversion and transfer fees

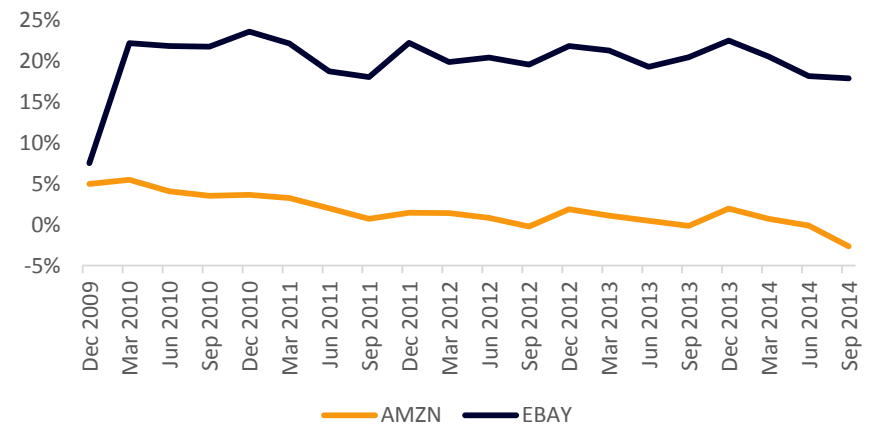
### Financial summary

Share Price	\$54.37
Market Cap	\$67.5B
Total Debt	(\$7.6B)
Total Cash	\$10.4B
Net Debt	\$(2.8B)
Enterprise Value	\$64.8B
EV/LTM EBITDA	13.0x

### Revenues



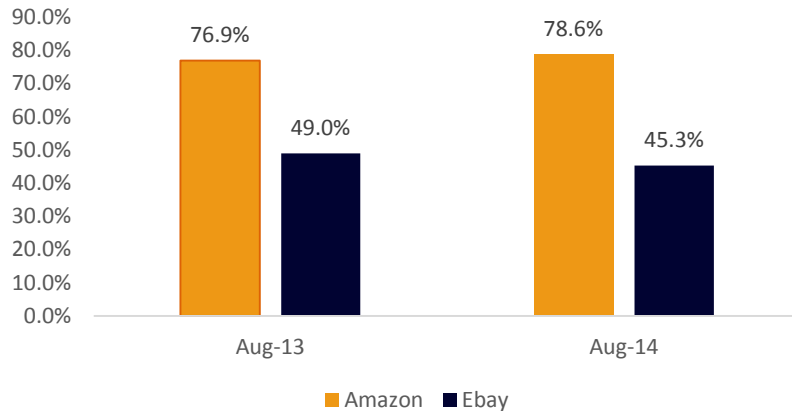
### Operating margin



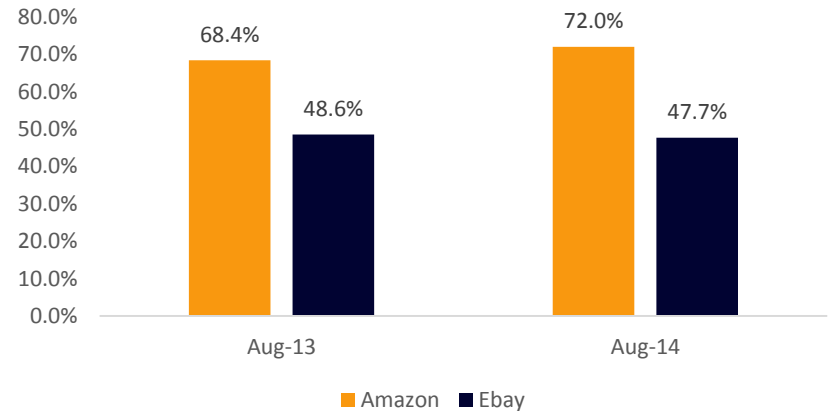
# Competitors

## Why Amazon over Ebay?

### US consumers visit Amazon more than Ebay...

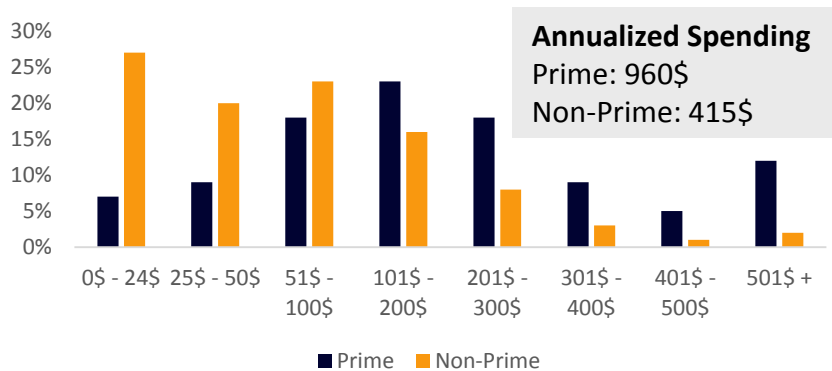


### ...and Amazon converts more to purchasers



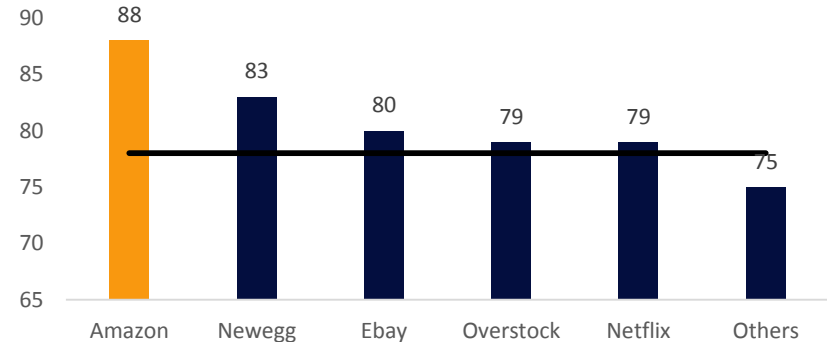
### Key differentiator: Amazon Prime

#### Survey: Online spending in last 90 days



### Better customer satisfaction

#### American Customer Satisfaction Index





# Competitors

## Alibaba

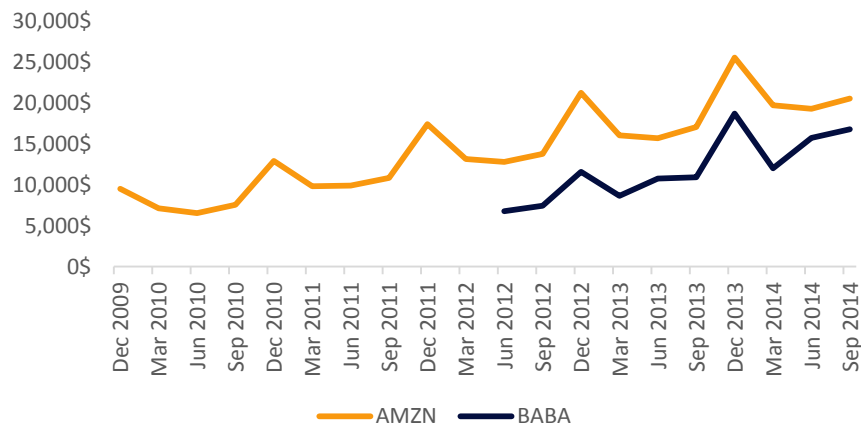
### Company overview

- Alibaba is similar to Ebay, it connects buyers and sellers but does not own inventory or warehouses
- Derives revenues from advertising and premium services, not by selling products to consumers
- Runs Taobao (independent sellers) and Tmall (name brands), and Alipay (third-party payments)

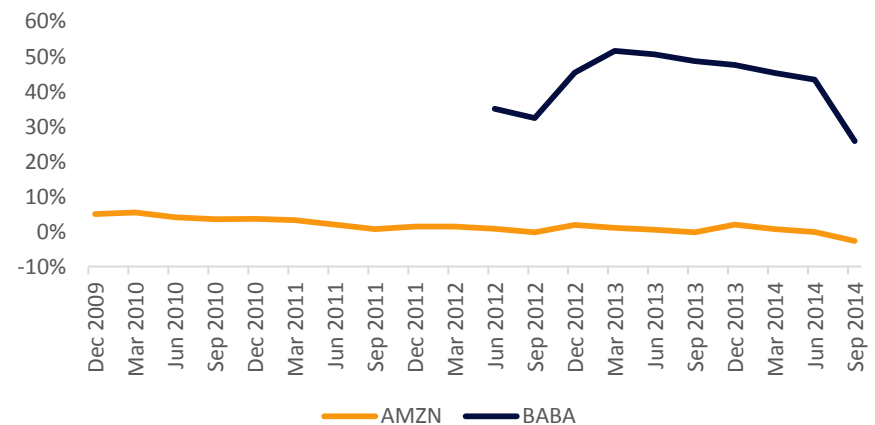
### Financial summary

Share Price	\$114.79
Market Cap	\$283.0B
Total Debt	(\$10.4B)
Total Cash	\$19.7B
Net Debt	\$(9.3B)
Minority Interest	\$0.8B
Enterprise Value	\$274.5B
EV/LTM EBITDA	10.3x

### Revenue



### Operating margin



# E-Commerce in China

## Alibaba and Amazon

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B2B		Alibaba started as a B2B service provides global access to the Chinese supply chain.		Only operates in U.S.A, still in development.
C2C		Largest player in the C2C category in China.		Shutdown China operations in 2006, once had 79% market share back in 2003.
B2C		Largest player in the B2C category, vendors provides distribution to customers. Higher margin business.		Small player in the China market, operates distribution centers, wants to differentiates itself through its low cost distribution network.
Online payments		Mobile banking solution processed \$519 billion of digital payments in 2013.		Online banking solution, lagging behind in mobile, processed \$180 billion of digital payments in 2013

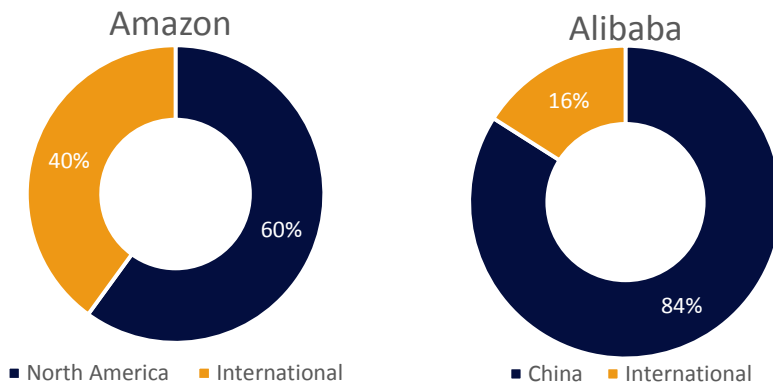
# Competitors

## Why Amazon Over Alibaba?

### Growth in international markets uncertain

- Alibaba's business model relies on advertising, not selling products
- It is highly successful in China because it already has a well established user base in a country that restricts foreign investments.
- Replicating this model in the US or emerging markets where other companies already have a large portion of the internet user base would prove difficult.

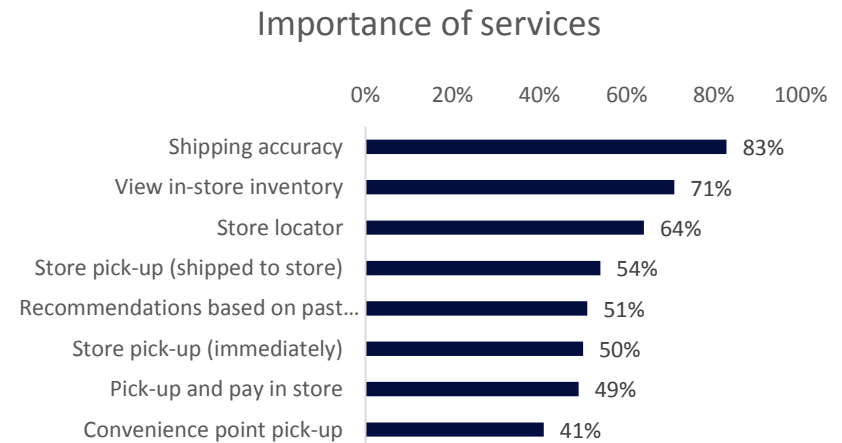
### Exposure to international markets (% of rev.)



### China's Tencent threat

- Tencent is increasingly trying to gain share from the ecommerce industry by leveraging its QQ (850M users) and WeChat (400M users) traffic.
- Many subsidiaries directly compete with Alibaba:
  - paipai.com: a C2C marketplace
  - TenPay: a PayPal equivalent
  - 15% stake in JD.com: China's #2 e-commerce site

### Shipping an important factor



# Amazon's Far-Reaching Network

## Amazon is Investing in Infrastructure

### Delivery & Distribution

- 131 distributions across the globe as of Nov. 2014
- Amazon's facilities not completely optimized for Delivery efficiency. They are set up for tax savings.
- Significant investment in Arizona, Tennessee, Pennsylvania, Kentucky, Indiana, Delaware, Virginia, South Carolina due to tax arrangements with state
- Amazon point-of-sale is its distribution facilities, which are not classified as retail stores for tax purposes
- Amazon will stop fighting tax breaks going forward

### Same-Day Service

- Atlanta, Baltimore, Boston, Chicago, Indianapolis, New York, Philadelphia, Washington D.C., Dallas, Los Angeles, Phoenix, San Francisco, Seattle
- Partnership with USPS to deliver last mile

### U.S. Distribution Footprint



### Setup Costs Are a Barrier to Entry

- Competitors cannot deliver product as cheap or quickly as Amazon due to fixed cost of infrastructure
- Amazon has fulfillment centers in United States, Canada, United Kingdom, Germany, France, Spain, Italy, Czech Rep., Poland, China, Japan, India

Source: CapIQ as of 9/27/2014.

## Kindle

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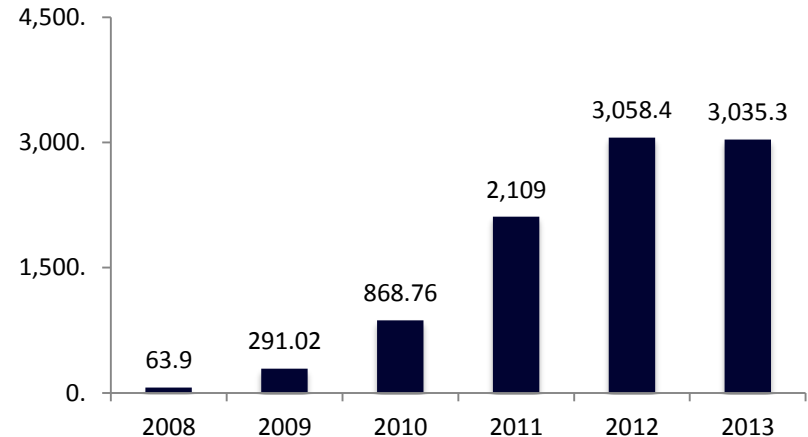
# Amazon Hardware

## Kindle a loss leader

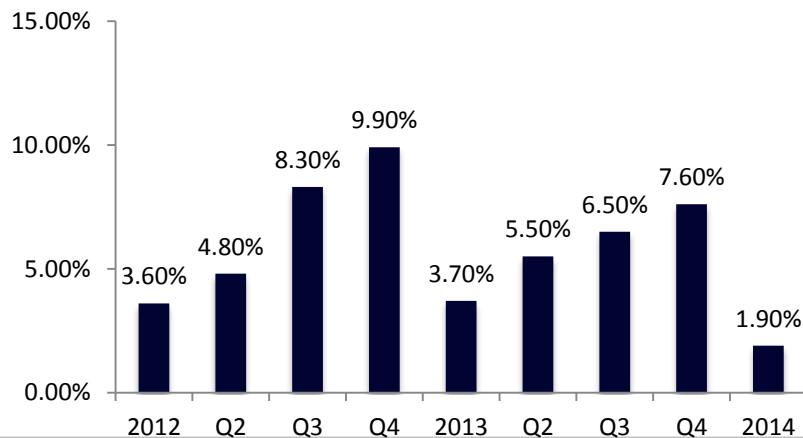
### Kindle Tablet Sales

- Management doesn't disclose its Kindle Fire or eReader sales.
- Amazon's strategy consists of selling these devices as loss leaders while generating income from content sales.
- Estimates have pegged Amazon's Kindle business at 11% of revenue and 23% of operating profit I 2013.

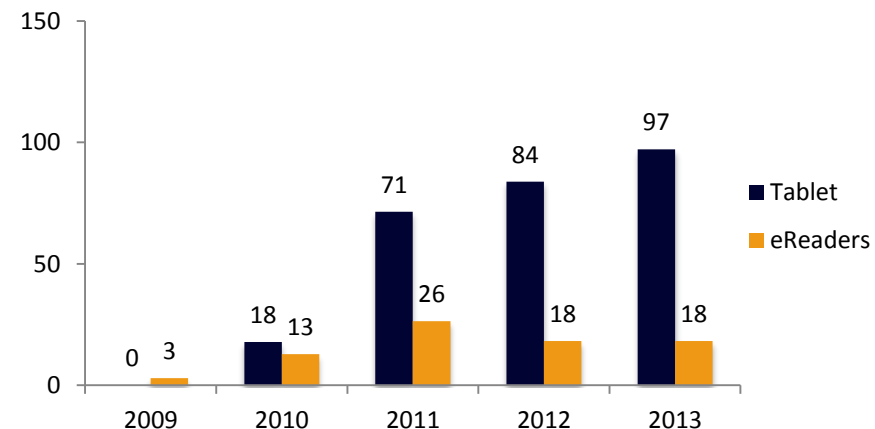
### eBook Industry (millions)



### Kindle market share of global tablet shipments



### Tablet vs. eReaders



## Amazon Prime

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# Amazon Prime

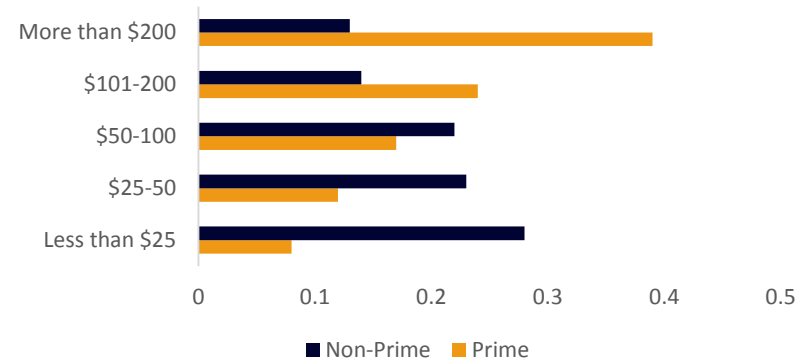
## Much more than a loyalty program

### What's in it for Prime Members?

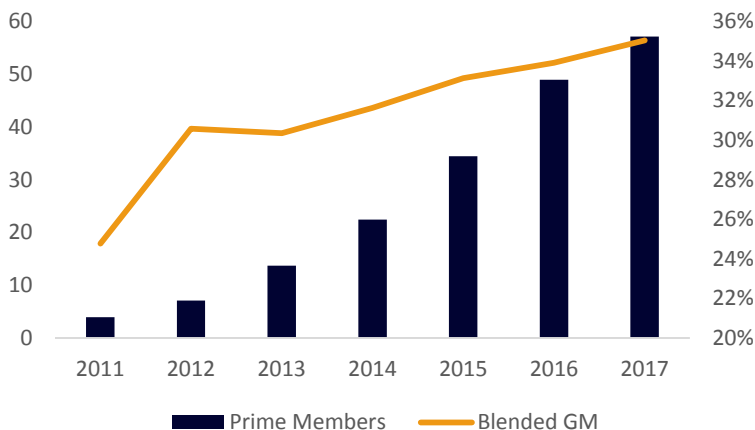
- \$99/yr, 25M users
- Free 2-day shipping, unlimited access to Netflix-like video streaming service, unlimited photo storing on AWS, access to vast Kindle library
- 90% of Prime members intend to renew their subscriptions over the next twelve months

### Prime Members Spend More

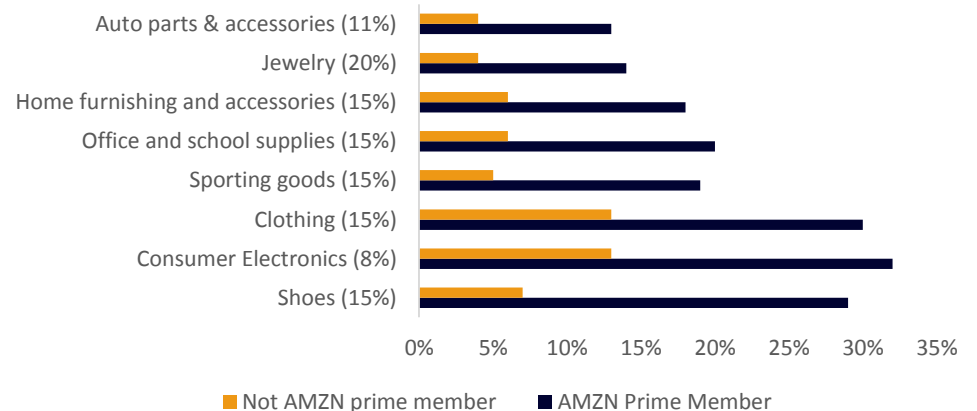
#### Average purchases over the last 90 days



### Prime users (m) versus blended GM



### ...And they purchase higher margin products





# Amazon Video On Demand

Commitment to content consistent with long-term strategy



## Digital Content

- Streaming content library 20-25% the size of Netflix's library
- Video usage is up 3X year over year
- Bundled into Prime membership
- **Of new Prime members in 2014, 13% stated video as the number one reason to join Prime, compared to 6% last year**



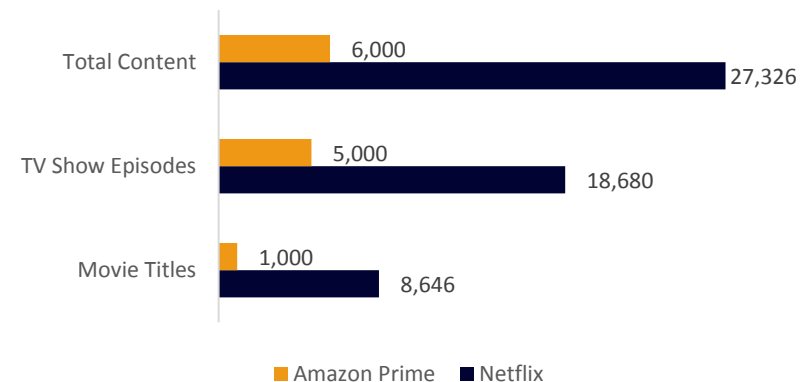
## Amazon Fire TV

- Backordered until January 2015 due to demand
- \$39 streaming-media device, with free 30-day Prime trial
- Competes against Google Chromecast and Roku Streaming Stick
- Will increase the popularity of VOD and drive Prime awareness

## Cost of Digital Content

- 2 components: the development of original content and procurement of third party digital content
- Expensed \$100M in original content last quarter
- HBO contract estimated at \$85M per year
- Fixed cost intensive, no significant variable cost to extend use to prime members
- Cost advantage to Netflix due to AWS

## Amazon versus Netflix



## Amazon Web Services (AWS)

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# AWS

## Product Overview



### Description

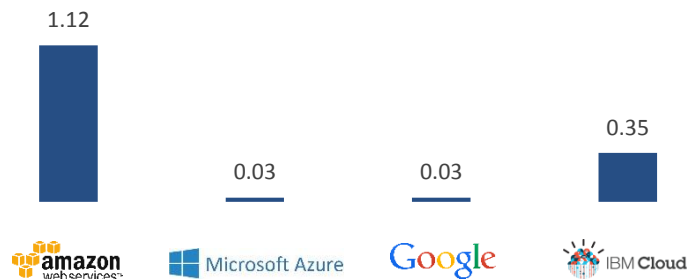
- Launched in 2006 (first mover)
- +5X capacity vs next 14 rivals
- Cloud based IaaS that provides a simple way to access servers, storage, databases and a broad set of application services over the Internet

- Client base:



### Competitors to look out for

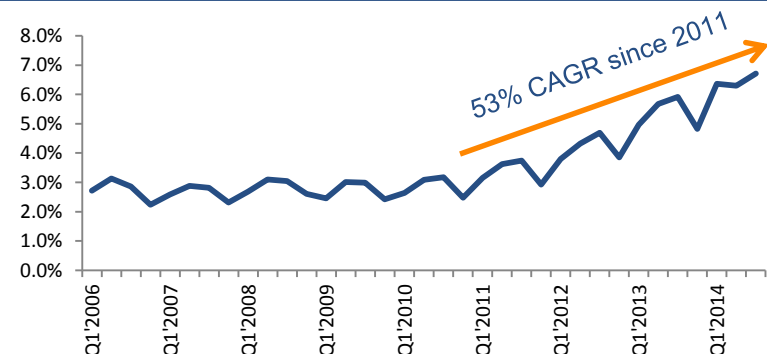
1Q14 Revenue (\$bn)



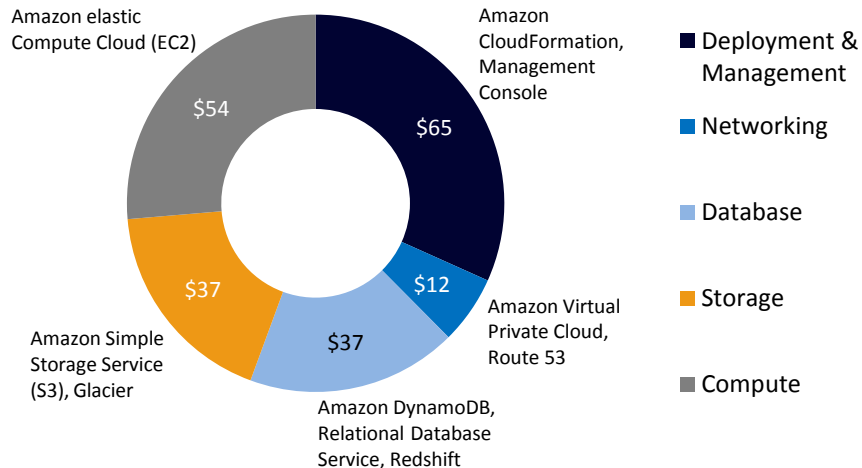
### Global Footprint



### AWS as a % of Amazon Revenue



### \$200bn TAM Opportunity



### ...A Product for Every Category

#### Compute

- Elastic Compute Cloud (EC2): pay-as-you-go compute capacity
- Elastic MapReduce: big data processing in the cloud
- Auto Scaling: automatically scale EC2 capacity to needs
- Elastic Load Balancing: load balance incoming traffic across multiple EC2 instances

#### Database

- Relation Database Service (RDS) & DynamoDB: NoSQL database service in the cloud
- ElasticCache: in-memory cache in the cloud
- Redshift: petabyte-scale data warehouse service in the cloud

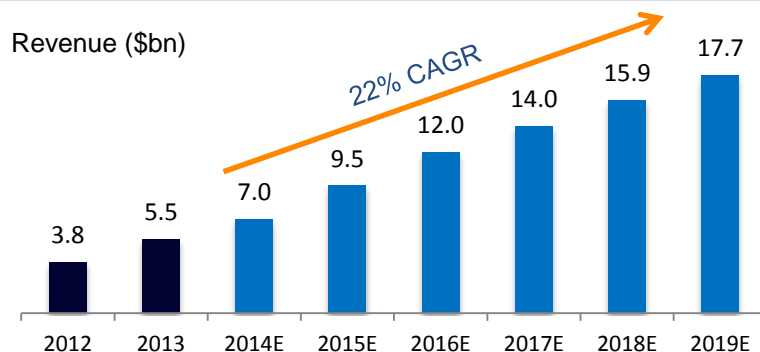
#### Deployment & Management

- Identity and Access Management (IAM): user access control
- CloudWatch: EC2 resource monitoring
- Elastic Beanstalk: automated application provisioning, load balancing, auto-scaling and application health monitoring
- CloudFormation: create and provision collections of AWS services
- Data Pipeline: move data between AWS compute and storage resources
- OpsWorks: DevOps platform for managing applications

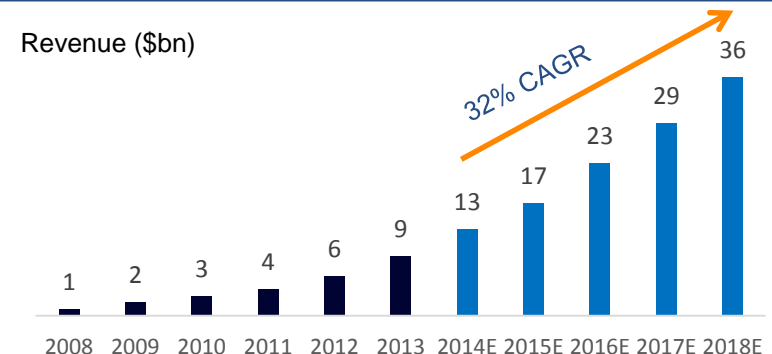
#### Networking

- Route 53: domain name service
- Virtual Private Cloud (VPC): provision an isolated section of AWS
- Direct Connect: dedicated network connection into AWS

### PaaS Market Sizing



### IaaS Market Sizing



# AWS

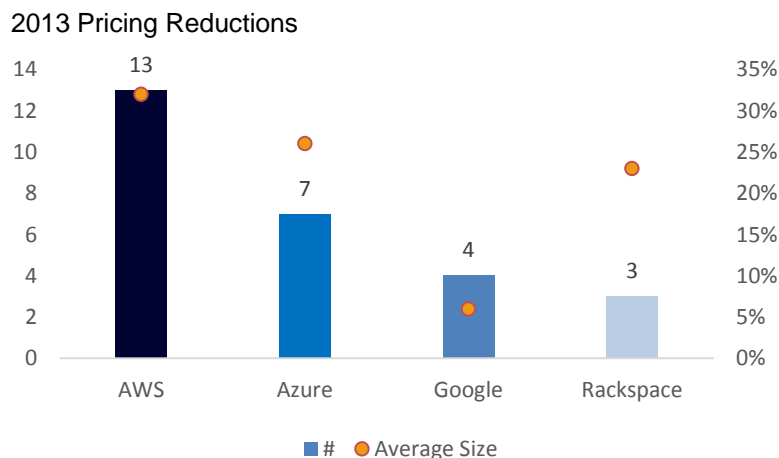
## Core Strengths



### Strengths

- Instant scalability for customers
- Massive capacity
- Automated compute elasticity
- Multiple availability zones
- Entrenched and diverse customer base
- Economies of scale = Attractive pricing

### Key Strength: Pricing



### Use Case: Netflix

- Netflix' core competency is not operating datacenters
- AWS enables Netflix to quickly deploy thousands of servers and terabytes of storage within minutes
- Seamlessly stream content to users around the world and throttle usage up and down as needed

### Undisputed Leader



### Margins

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- AWS margins are not officially reported but a number of industry analysts believe gross margins are between 80% - 90%
- AWS is not yet a meaningful contributor to the bottom line as the business is still in a massive expansionary phase

### Path to profitability

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- Once Capex investments begin to normalize AWS will contribute meaningfully to Amazon's bottom-line
- Competition from Microsoft and Google will force Amazon to be selective in their investments and focus on their ability to generate returns

### Arguably Amazon's greatest asset

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- "You invest in what you believe are the most important investments long term. We think of (these investments) as planting seeds for very large trees that will be fruitful over time. There aren't many opportunities like this in your lifetime" (AWS CEO)
- AWS is the leader in an industry set to explode and could eventually be larger than eCommerce

### Potential Value

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- While no pure play competitor with similar market position exists Salesforce.com and Rackspace are reasonable comps:
  - Average ~6X EV/Revenue TTM
  - Imputed AWS Value = \$30bn
  - MS uses same methodology and output

## Comparable Company Analysis

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# Valuation

## Comparable analysis

	Market Cap (B)	EV (B)	EV/Sales TTM	EV/Sales NTM	EV/EBITDA TTM	EV/EBITDA NTM	CAPEX/Sales	Debt/Equity	ROIC	Gross Margin
<b>Ecommerce</b>										
Alibaba	271.1	262.6	N.A.	15.0 x	N.A.	30.4 x	6.3%	1.0 x	33.8%	74.5%
Ebay	68.3	65.5	4.1 x	3.3 x	13.6 x	10.3 x	7.8%	0.2 x	13.3%	68.6%
1-800-flowers.com	0.5	0.6	0.5 x	0.5 x	11.7 x	8.1 x	3.0%	0.0 x	N.A.	41.7%
Netflix	22.6	21.8	4.9 x	3.2 x	55.9 x	31.2 x	1.2%	0.4 x	11.3%	29.5%
Overstock.com	0.6	0.5	0.2 x	0.3 x	17.6 x	14.2 x	1.4%	0.0 x	N.A.	19.0%
JD	32.9	28.2	2.8 x	1.0 x	N.A.	N.A.	0.6%	0.0 x	N.A.	9.9%
<b>Average</b>	<b>59.1</b>	<b>55.1</b>	<b>2.3 x</b>	<b>3.5 x</b>	<b>20.5 x</b>	<b>16.6 x</b>	<b>3.2%</b>	<b>0.4 x</b>	<b>16.8%</b>	<b>47.3%</b>
<b>Cloud</b>										
Rackspace	6.2	6.0	3.5 x	2.9 x	8.8 x	8.6 x	29.5%	0.1 x	8.2%	67.9%
Internap	0.4	0.8	2.5 x	2.2 x	12.4 x	8.6 x	22.5%	1.9 x	N.A.	41.2%
Salesforce.com	37.9	37.8	9.2 x	5.7 x	87.9 x	29.8 x	7.4%	0.6 x	N.A.	76.2%
VMWare	36.6	31.0	6.0 x	4.5 x	22.3 x	15.0 x	0.6%	0.1 x	11.1%	86.0%
<b>Average</b>	<b>20.3</b>	<b>18.9</b>	<b>5.3 x</b>	<b>3.8 x</b>	<b>32.9 x</b>	<b>15.5 x</b>	<b>15.0%</b>	<b>0.7 x</b>	<b>9.6%</b>	<b>67.8%</b>
<b>Retail</b>										
Barnes & Nobles	1.4	1.9	0.2 x	0.3 x	6.0 x	N.A.	2.1%	0.1 x	N.A.	29.1%
Staples	9.1	9.5	0.4 x	0.4 x	7.2 x	6.8 x	1.6%	0.2 x	8.4%	26.1%
Costco	61.2	59.2	0.5 x	0.5 x	12.0 x	11.7 x	1.8%	0.4 x	12.5%	12.6%
Target	45.4	58.9	0.7 x	0.8 x	9.3 x	8.6 x	4.8%	0.8 x	7.4%	29.5%
Wal-Mart	274.5	328.4	0.6 x	0.7 x	8.4 x	8.7 x	2.8%	0.7 x	13.0%	24.8%
Kroger	28.7	39.7	0.3 x	0.4 x	7.6 x	7.5 x	2.4%	2.1 x	10.9%	20.6%
<b>Average</b>	<b>70.0</b>	<b>82.9</b>	<b>0.4 x</b>	<b>0.5 x</b>	<b>8.4 x</b>	<b>8.7 x</b>	<b>2.6%</b>	<b>0.7 x</b>	<b>10.4%</b>	<b>23.8%</b>
<b>Amazon</b>	<b>151.4</b>	<b>147.6</b>	<b>2.4 x</b>	<b>1.4 x</b>	<b>32.9 x</b>	<b>17.9 x</b>	<b>4.6%</b>	<b>0.6 x</b>	<b>6.0%</b>	<b>27.2%</b>



# Valuation

## Comparable analysis

Sum of parts			Sum of parts	
<b>3P Sales</b>			<b>3P Sales</b>	
Sales	\$ 10,748		Sales	\$ 10,748
Multiple	3.2 x	← Average of eCommerce peer group →	Multiple	3.2 x
Implied EV	\$ 34,394		Implied EV	\$ 34,394
<b>AWS</b>			<b>AWS</b>	
Sales	\$ 5,510		Sales	\$ 5,510
Multiple	6.2 x	← Average of Cloud peer group →	Multiple	6.2 x
Implied EV	\$ 34,162		Implied EV	\$ 34,162
<b>1P Sales</b>			<b>1P Sales</b>	
Sales	\$ 74,572		Sales	\$ 74,572
Multiple	0.7 x	← Target Multiple →	Multiple	2.8 x
Implied EV	\$ 52,200		Implied EV	\$ 208,802
Total EV	\$ 120,756	JD.com multiple ↗	Total EV	\$ 277,357
- Net Debt	\$ 5,170		- Net Debt	\$ 5,170
<b>Equity Value</b>	<b>\$115,586</b>		<b>Equity Value</b>	<b>\$272,187</b>
FD S/O	463		FD S/O	463
<b>Implied Share Price</b>	<b>\$249.65</b>		<b>Implied Share Price</b>	<b>\$587.88</b>
Current Share Price	\$335.64		Current Share Price	\$335.64
<b>Implied Upside</b>	<b>-25.6%</b>		<b>Implied Upside</b>	<b>75.2%</b>

## DCF Valuation

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# Valuation

## Operating Model Assumptions

### Bear Case

**Revenue:** Segment revenues not growing in line with expectations due to poor CAPEX spending and increasing operating costs.

**1P growth:** -4% change in revenue growth

**3P growth:** -6% change in revenue growth

**Prime:** -5% change revenue growth

**AWS growth:** -5% change in revenue growth

**Terminal Growth: 2%; Multiple 11x**

**WACC: 8.84%**

**Operating Expense:** 0.75% increase

Price Target: **\$239.09**

Downside: **(28.77%)**

### Base Case

**Revenue:** Segment revenues growing in line with industry and analyst expectations

**1P growth:** 10%-20% revenue growth

**3P growth:** 15%-25% revenue growth

**Prime:** 20%-50% revenue growth

**AWS growth:** 20%-40% revenue growth

**Terminal Growth: 2%; Multiple 11x**

**WACC: 8.84%**

**Operating Expense:** no change

Price Target: **\$568.76**

Upside: **+69.46%**

### Bull Case

**Revenue:** Segment revenues growing above industry and expectations, operating costs are decreasing due to increased scale.

**1P growth:** 2% change revenue growth

**3P growth:** 2% change revenue growth

**Prime:** 5% change revenue growth

**AWS growth:** 3% change revenue growth

**Terminal Growth: 2%; Multiple 11x**

**WACC: 8.84%**

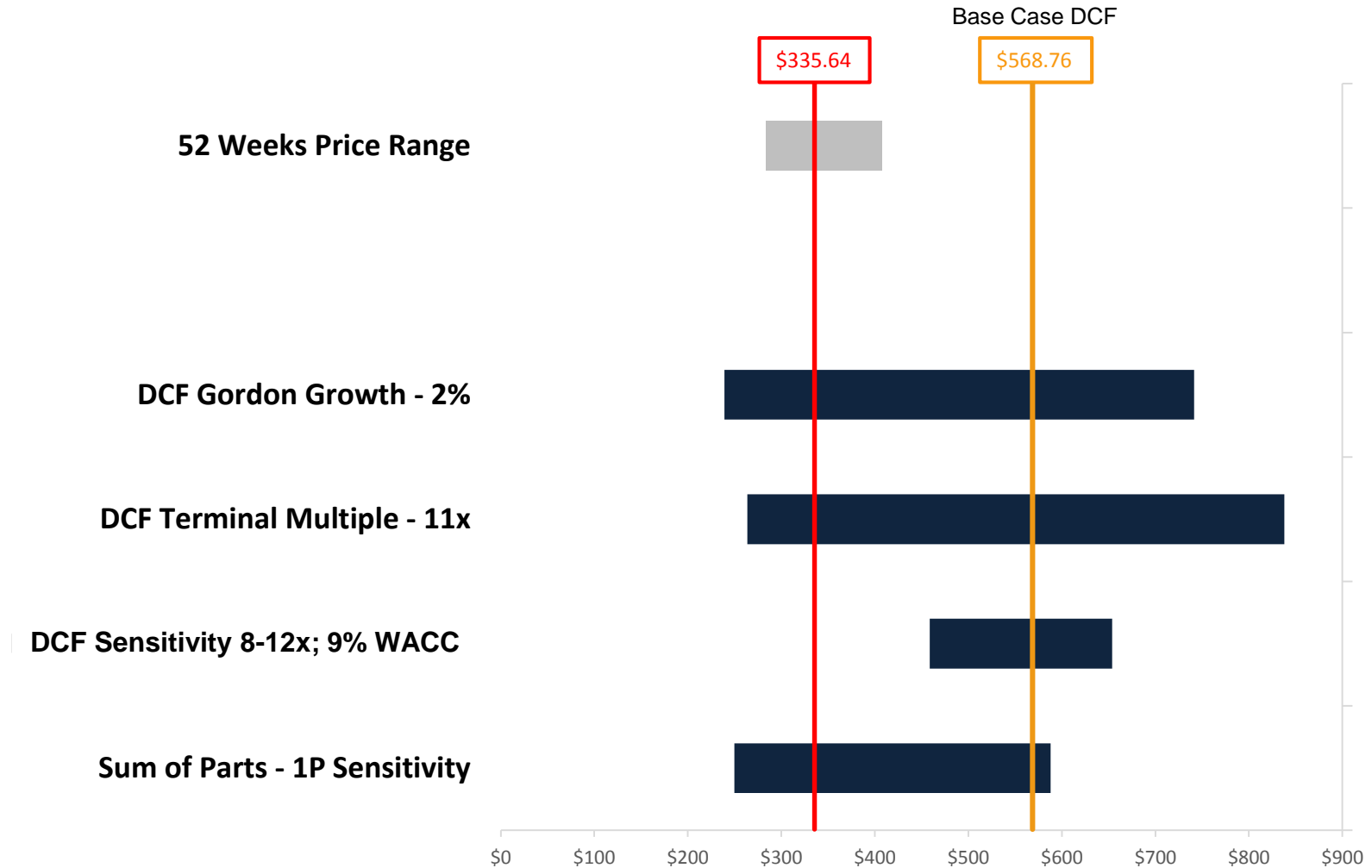
**Operating Expense:** 0.5% decrease

Price Target: **\$787.70**

Upside: **+134.69%**

# Valuation

## Football Field Analysis



## Q&A

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# Valuation

## DCF

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WACC	8.84%
Terminal Growth	2%
Multiple	11x

Terminal Growth	
PV of CF	\$35,598.79
PV of TV	\$214,575.11
EV	\$250,173.90
- Net Debt	\$3,784.00
Equity Value	\$246,389.90
FD S/O	463
Implied Share Price	\$532.16
Current Share Price	\$335.64
Implied Upside	58.55%

Multiple	
PV of CF	\$35,598.79
PV of TV	\$248,466.79
EV	\$284,065.58
- Net Debt	\$3,784.00
Equity Value	\$280,281.58
FD S/O	463
Implied Share Price	\$605.36
Current Share Price	\$335.64
Implied Upside	80.36%

# Valuation

## Sensitivity

		WACC					
		11%	10%	9%	8%	7%	6%
EV/EBITDA	8x	\$357.16	\$358.90	\$360.71	\$362.60	\$364.59	\$366.67
	9x	\$395.32	\$397.06	\$398.87	\$400.77	\$402.75	\$404.83
	10x	\$433.49	\$435.22	\$437.03	\$438.93	\$440.91	\$442.99
	11x	\$471.65	\$473.38	\$475.19	\$477.09	\$479.07	\$481.15
	12x	\$509.81	\$511.54	\$513.36	\$515.25	\$517.24	\$519.31

		1P COGS					
		70%	71%	72%	73%	74%	75%
EV/EBITDA	8x	\$465.75	\$433.74	\$401.73	\$369.72	\$337.71	\$305.69
	9x	\$513.99	\$478.90	\$443.81	\$408.72	\$373.63	\$338.53
	10x	\$562.23	\$524.06	\$485.89	\$447.72	\$409.55	\$371.37
	11x	\$610.48	\$569.22	\$527.97	\$486.72	\$445.47	\$404.21
	12x	\$658.72	\$614.39	\$570.05	\$525.72	\$481.39	\$437.05

		1P COGS					
TERMINAL GROWTH		70%	71%	72%	73%	74%	75%
	1%	\$479.89	\$446.01	\$412.13	\$378.25	\$344.37	\$310.49
	2%	\$538.37	\$500.61	\$462.85	\$425.09	\$387.34	\$349.58
	3%	\$616.85	\$573.89	\$530.93	\$487.98	\$445.02	\$402.06
	4%	\$727.76	\$677.45	\$627.14	\$576.83	\$526.52	\$476.21
	5%	\$896.38	\$834.90	\$773.41	\$711.93	\$650.44	\$588.96

# Amazon Revenue Breakdown

Amazon.com, Inc.	2013	2014E	2015E	2016E	2017E	2018E	2019E
<b>Net Sales</b>	<b>\$74,453</b>	<b>\$92,383</b>	<b>\$113,528</b>	<b>\$137,007</b>	<b>\$163,730</b>	<b>\$192,168</b>	<b>\$222,146</b>
1P	82%	80%	78%	76%	74%	72%	71%
3P	11%	12%	12%	12%	13%	13%	13%
Amazon Prime	1%	2%	3%	4%	4%	4%	4%
Amazon Web Services	4%	5%	6%	7%	8%	9%	9%
Other	1%	1%	1%	1%	1%	2%	2%
Amazon.com, Inc.	2013	2014E	2015E	2016E	2017E	2018E	2019E
<b>Net Sales</b>	<b>22%</b>	<b>24%</b>	<b>23%</b>	<b>21%</b>	<b>20%</b>	<b>17%</b>	<b>16%</b>
1P	18%	18%	18%	18%	18%	18%	18%
3P	36%	28%	25%	20%	26%	22%	19%
Amazon Prime	93%	110%	58%	47%	28%	22%	20%
Amazon Web Services	59%	46%	48%	40%	37%	28%	23%
Other	45%	32%	32%	32%	28%	27%	27%
Amazon.com, Inc.	2013	2014E	2015E	2016E	2017E	2018E	2019E
<b>Cost of Sales</b>	<b>73%</b>	<b>70%</b>	<b>68%</b>	<b>67%</b>	<b>66%</b>	<b>64%</b>	<b>63%</b>
Cost of Product	60%	58%	57%	56%	54%	53%	52%
Shipping	9%	9%	8%	8%	8%	8%	8%
Digital Content	1%	1%	1%	2%	2%	2%	2%
Hardware Manufacturing	3.1%	2.3%	2.0%	1.7%	1.5%	1.3%	1.2%
<b>Operating Expenses</b>	<b>26.1%</b>	<b>29.6%</b>	<b>28.3%</b>	<b>29.1%</b>	<b>29.5%</b>	<b>28.6%</b>	<b>28.5%</b>
Fulfillment	11.1%	11.4%	11.4%	11.4%	11.4%	10.7%	10.4%
Tech. & Content	8.0%	9.9%	9.4%	10.1%	10.3%	9.7%	9.6%
Marketing	4.1%	4.7%	4.2%	4.2%	4.2%	4.2%	4.2%
General & Admin	1.3%	1.7%	1.2%	1.0%	0.9%	1.0%	1.0%
Stock-Based Comp.	1.5%	1.8%	2.1%	2.4%	2.7%	3.0%	3.3%



# Amazon Free Cash Flow Reconciliation

Amazon.com, Inc.	2013	2014E	2015E	2016E	2017E	2018E	2019E
<b>Net Sales</b>	<b>\$74,453</b>	<b>\$92,383</b>	<b>\$113,528</b>	<b>\$137,007</b>	<b>\$163,730</b>	<b>\$192,168</b>	<b>\$222,146</b>
Cost of Goods Sold	\$54,181	\$64,961	\$77,674	\$92,200	\$107,552	\$123,480	\$140,046
<i>Gross Margin%</i>	<i>27%</i>	<i>30%</i>	<i>32%</i>	<i>33%</i>	<i>34%</i>	<i>36%</i>	<i>37%</i>
Operating Expenses	\$19,411	\$27,308	\$32,088	\$39,803	\$48,326	\$54,968	\$63,347
EBIT	\$861	\$113	\$3,766	\$5,003	\$7,853	\$13,720	\$18,753
<i>Operating Margin %</i>	<i>1%</i>	<i>0%</i>	<i>3%</i>	<i>4%</i>	<i>5%</i>	<i>7%</i>	<i>8%</i>
Add: Depreciation & Ammort.	\$3,253	\$5,081	\$6,244	\$7,535	\$9,005	\$10,569	\$12,218
EBITDA	\$4,114	\$5,194	\$10,010	\$12,539	\$16,858	\$24,289	\$30,971
Less: Changes in NWC	(\$1,358)	(\$1,560)	(\$2,069)	(\$2,475)	(\$2,979)	(\$3,577)	(\$4,146)
Less: CAPEX	3440						
Free Cash Flow	\$2,032	\$6,754	\$12,079	\$15,014	\$19,837	\$27,866	\$35,117
Net Interest	\$103	\$92	\$114	\$137	\$164	\$192	\$222
Tax Expense	\$162	\$6	\$1,096	\$1,460	\$2,307	\$4,058	\$5,559
Net Income	\$596	\$15	\$2,556	\$3,407	\$5,382	\$9,470	\$12,971