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Pivotal Research Group

U.S. Equity Research
Internet & Media

AMZN: We Think the Street – Buy- and Sell-side are Looking at SOTP Wrong (Us Included). We are Reframing Why AMZN is the Best Mega-cap on a Multi-year Basis.

September 30, 2020

BOTTOM LINE: We and almost every other investor we have spoken to over the years, has been framing the AMZN SOTP valuation wrong. Amazon advertising is only ~5% of revenues, but is far greater contributor to overall non-AWS EBIT margins than the street recognizes. Said differently, If advertising was viewed as a stand-along business unit (we will explain why it shouldn't be), it would represent well north of 300% of 2020E non-AWS EBIT.

Based on our view that there is massive upside by 2024E, we increase our PT to a Street high of $4,500 based on an average of our 2024 SOTP and 30x our 2024 EBIT "power" of $91bn vs. our in-print estimates of $71.5bn and the street at $69bn- both of these are modeled back at 10%, Overall, we think investors are materially underestimating the earnings power of the business. We are going to be good bulls (not all our colleagues always are) and not factor all of the goodness in our estimates. We wanted to frame a highly likely outcome, as well as dynamics of the AMZN business that we this not totally appreciated. As a long time buy-sider, I think one of the most important values the sell-side can bring is reframing an underappreciated dynamic. We don't think we are going to disappoint.

We would highlight that this is not a short-term call. We do think Street estimates for fulfillment in particular are modeled too low in H121 based on the company's message that they are embarking on another fulfillment center investment cycle – made loud and clear in our view on the 2Q20 call. Also, we all know eCommerce has seen a massive acceleration from the pandemic, but can imagine guiding could be challenging. Long term, we would bet that over a 4-year period a Long AMZN / Short the market position will be handsomely rewarded.

There are a few observations we wanted to highlight:

- Everybody who is using a SOTP model for AMZN is doing so incorrectly (ourselves too). We also are not huge fan of SOTP models because the Buy-side or Sell-side makes inaccurate conclusions, but in AMZN's case think is necessary. Why we are not a fan:
  - These SOTP analyses are often done as means to justify that a company is worth more than it is currently trading at, but let us be clear. Analysts may lie – the market doesn't lie - and the associated price a stock currently trades at is what it is. It can turn out to be true, taking the case of Icahn's successful push to separate PYPL from EBAY. We would argue there are a lot more reasons that untethered from EBAY, PYPL has been able to transform into a different business than it would if still owned by EBAY. But back to our initial point, analysts may lie – stocks don't lie. Massive kudos to whomever bet alongside Mr. Icahn, but this has been a grand slam home run, with PYPL alone at a 230bn mkt cap.
  - We do not remotely subscribe to the thesis that AWS profits – highly profitable and quantifiable – are being used to "subsidize" retail losses.

- SOTP debates aside, we would all concur that more disclosure is better than less disclosure. This typically leads to multiple expansion given investors greater understanding of the different moving pieces of complex businesses. Examples we would cite are BABA (cloud and offline have been huge drags on a highly profitable core business), NFLX (domestic is highly profitable vs international), and GOOG most recently took a cue from some of these other mega-caps. Ironically, AMZN over the last few years has gone from the mega-cap disclosing the least to the one disclosing the most.

- Now let's chitty chat AMZN. We think the street often tries to ascribe different multiples to AWS (they certainly should), advertising, subscription, FBA, GMV, 1p revs, 3p revs etc. You name it, somebody has done it. The only reported FACTS we have about OI is AWS, Domestic and International so all the other assumptions are being made by the Street.

  We have historically modeled for our SOTP: 1) Domestic and 2) International GMV (we gross up the 3rd party GMV and admittedly are making an assumption on the take rate, as it likely has only continued to uptick given FBA growth), 3) AWS, 4) Advertising, and then have applied a "holding company discount".

  We believe you could nitpick our approach to international GMV. That said, we believe:
  1) The company remains in aggressive investment mode – particularly in India – and suspect this market alone is a large % of the international losses

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Amazon (AMZN)

RATING: BUY
(Previous: BUY)

Target Price: $4,500
(Previous: $3,925)

Price (9/30/20): $3,148.73

MARKET DATA	
52 Wk Hi - Low	$3,344 - 1,626
Market Cap. (MM)	$1.52tn
Avg. Daily Vol (000)	2.5

EPS	2020E	Prior	2021E	Prior
1Q	5.09	5.09	9.18	6.76
2Q	10.49	2.26	13.02	10.75
3Q	7.96	2.93	13.24	10.71
4Q	9.6	4.82	17.33	12.45
FY	33.1	15.10	40.67	40.67
P/E	163x		60.8x	

Sales	2020E	Prior	2021E	Prior
1Q	75.5	75.5	94.4	90.9
2Q	88.9	80.9	99.6	95.3
3Q	92.8	87.8	108.9	103.7
4Q	115.8	111.1	135.8	128.9
FY	355.3	355.3	438.8	418.8

BALANCE SHEET DATA (6/30/20)	
Cash ($)	$71.4bn
Debt ($)	$75bn
Debt/Equity	0.98x
Book Value/Share	$123

Source: Pivotal Research Group and Company Documents

2) Based on our channel work, we are of the view that most of the Western European markets are doing MSD % OI margins
3) Unlike China, which was a guaranteed unwinnable fight for AMZN relative to Chinese natives like JD, and BABA, there was a zero-probability chance the Chinese government would allow ecommerce to be dominated by a foreign player.
4) By comparison, we think the Indian government is way more foreign business friendly, and valuing the company on retail OI (god knows how many assumptions you need to make to come up w a clean retail OI number) would attribute no value to international revenues.

- **We would advocate the investors should essentially look at the business in two primary buckets: AWS and Everything Else**
    - So why do we think so? AMZN is probably the company that penned the term "Flywheel" or certainly made it pervasive in the investment and operating communities. What do we mean? Let's start to dissect by reporting line.
    - **Retail -** The 1p and 3p businesses, while with different margin structures – 3p is much higher and reported only as the net take, are intimately intertwined. They benefit from the same end-customer base. With FBA's continued expansion and penetration as a % of the 3P business, they often share the same warehouse space, as well as the same logistics/delivery providers. They share the same payment processing and benefit from the same marketing. We have long put zero stock in trying to look at one vs. the other. FBA increasing as % of the mix is good for retail margins and AMZN's take rate, but to our SOTP comment, we are not going to try and put a different multiple on one vs. the other.
    - **Subscription – Prime – Sweet Sweet AMZN Prime.** While we get that investors love subscription businesses because they are sticky, recurring, and have much greater degrees of predictability, AMZN Prime is all about the flywheel. There may be a small base of Audible users or more on the come with its recent Luna Cloud gaming service announcement, but end of the day the subscription business at 19.2bn in 2019 is all about Prime.
        - Back to our Flywheel comment, the Prime business exists because of the robust selection, and value proposition it represents to end consumers. And to further sweeten the deal, AMZN over the last 5-7 years has only further increased the value of a prime subscription by including an increasingly robust offering of streaming video, streaming audio and most recently, 1-day shipping.
        - On the other side of the "network effect", the larger the Prime subscriber base, the more enfranchised sellers are in participating in AMZN's FBA (Fulfillment by Amazon) program. Having the "Prime Enabled" logo next to your item, is a key driver to a shopper's propensity to click. So back to our comments about Retail, Prime and Retail are intimately intertwined. Within that context, we think ascribing a value to Subscription in SOTP separately also makes no sense
    - **Advertising –** As we have framed in our earlier notes about AMZN's ad business, 1) We think they are the only online player really benefiting from trade budgets today, 2) We believe there was an evolution internally in which AMZN found the right advertising business for AMZN.
        - We estimate at least 85-90% of the AMZN business today is sponsored listings. In this scenario, an advertiser pays for higher placement within the product sort order, the user stays on AMZN, and AMZN keeps the transaction and transaction data.
        - To use CPG as an example (we think by far the largest advertiser vertical on AMZN), we think P&G, Unilever, Energizer - companies that don't have a real DTC strategy -view advertising on AMZN to be not so different than paying for favorable shelf placement at WMT, TGT, KR, etc. The reality is, this is a) where their customers are, b) has better quantifiable results than the offline analog, so have been happy participants.
        - We think that AMZN could become more aggressive with AMZN Fire/potentially giving the TV device away to further drive their video inventory, but think that this hasn't happened yet (but who knows – prime day is around the bend), but a development worth closely watching.
        - Similar to Retail and Prime, we think investors have potentially thought through the Ad business as being a separate business unit, but we think that it sits under the broader retail umbrella to a greater degree than investors recognize. The ad business doesn't exist without retail.

- So why does this all matter? Let's do a little fun math. 1) FY 2015 North America margin was 4.3%, international was (0.3%) 2) The FY 2015 Other revenue line in totality was $1.7bn (with advertising likely $1.2-1.3bn), 3) Street estimated GAAP EBIT is ~$69bn for 2024
    - In our view, 2016 was the year advertising had the real break out - with Other revenues growing 74% y/y and advertising growing, we estimate, ~90% y/y.
    - For context, our estimate of advertising was $13.8bn in 2019, growing 41% y/y to ~19.4bn in 2020.
    - **Now this is where it gets interesting – based on our channel work, and some common sense, we estimate that advertising EBIT margins (if it were a stand-alone) are north of 80%, and believe that could even be CONSERVATIVE.**
    - Running this math based on 2019 actuals, Non-AWS EBIT was $5.3bn, and

    Advertising if looked in isolation would be ~$11bn – implying that the rest of the business is losing money??!?!?!?!?! We actually think of this as a huge positive not a negative.
  - As we stated under bullet 4, we think that there is AWS and Everything Else so we look at advertising as another part of the Flywheel.
  - Valuation is often more of an art-form than pure science, but end of the day what matters is what is the underlying earnings potential of the business.
  - In our view, we think the key exercise for valuing AMZN, is to do is the following:
    - Take AWS Revenues and EBIT estimates for 2024 (newly published today) – we are at ~$100bn in revenues and $34.5bn in OI
    - **Assume the "stand-alone" advertising business does $52bn and an estimated margin of 75% (let's assume they do more around CTV/Fire TV so the margin goes down from predominantly sponsored products, that is $39bn!**
    - So combined, between these two lines, we are already at $73.5bn in EBIT
    - If we assume that the non-ad components of the north American retail biz are able to get back to a 4% EBIT margin as they were in 2015 (North America was 4.3%), we would get on our estimates of retail revenues of 19.5bn
  - All in, this is $93bn of EBIT "Earnings Power" vs the street at $69bn – 14% EBIT margins vs the street at ~10%
  - Assuming we are correct, by 2024 investors won't need to do these financial acrobatics, because the underlying report EBIT of the busines will show up flowing through the income statement.

- Let's entertain the negative side and see where we could be wrong. Do you mean to say AMZN is back to its old days of selling things at a loss? And don't they always find a way to keep spending? Well yes and no.
- We think this comparison to 2015 margins is a decent proxy to think through earnings power, and are expect international EBIT will be positive by then as well. We do see a few big step function potential costs that are worth framing, and want to discuss where our logic could be wrong.
  - There has been a huge amount of incremental investment into the business with fulfillment having slowed in 19/18 in terms of order of magnitude y/y dollar growth pretty substantially – we think there is a massive step up this year
  - Content costs – a straight up gross margin headwind have increased substantially and potentially could again
    - We actually think a more logical owner of things like NFL rights at the next round of negotiations is more likely to be AMZN, AAPL or GOOG relative to the current rights holders as we suspect we have hit a negative inflection point with linear viewing/cable subscribers. We also think that the potential for one of these tech companies, who each have MASSIVE international audiences to have a big impact on the league's international presence and brand would likely only further drive this – this would be a huge step up in content costs
  - One day shipping evolves into same day shipping – as we have been writing about since initiating on AMZN last year, we have viewed one day shipping as a step along the road on the way to inevitable same day shipping – a clear incremental driver of incremental cost headwinds.
  - The grocery category is clearly one of the last uncaptured categories of huge TAM- particularly in the US. We think that the elements of fresh product, different fulfillment center needs (in part because of perishable), are subscale at this point. But would highlight that 1) we think Bezos' world view is that he wants AMZN to own as large a percent of the consumers wallet as possible – if they dominate in grocery, they will have largely achieved that, 2) groceries are arguably to last category within which AMZN is not dominant, so see fewer negative new category introduction headwinds and 3) we are assuming AMZN can ultimately get to a ~3-4% EBIT margin in grocery at scale.
  - Logistics? – we have been of the view for several years, that AMZN has ambitions to compete with FDX/UPS in the top US cities/where they have the most density. We think investors have been paying for some of these investments "along the way", and think that AMZN has pulled back mid-Covid from their intentions to compete with the third-party carriers, but think this is a function of necessity given the incredible high level of demand for all eCommerce companies. We would be shocked if AMZN is not in market well in advance of 2024 – pricing below their peers. Overall, we think this competitive push would be a headwind to EBIT, but would be favorably viewed as a new leg of the AMZN story.
  - The ad business is more mature than we appreciate. We think that the ad biz grows correlated with GMV and while we have estimated GMV growth of 13% in 2024, and ad growth at 20%, potentially we are overestimating the headroom in the business.

- In summary, we think that most of these potential large pockets of investment (ex-fulfillment build-out) would likely be seen as incremental drivers of revenue growth, so to the extent EBIT numbers are too high, we would suspect the revenue numbers are likely too low.
- AMZN long-term skeptics will respond to an analysis such as this that they always manage to spend away the upside, but if grocery is in fact the last "frontier" category, we think they will

ultimately run out of large incremental “big ticket” investment opportunities and the underlying earnings power of the business will flow through.

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Amazon Income Statement
In $mm Except for Share Data

	FY18A	FY19A	1Q20A	2Q20A	3Q20E	4Q20E	FY20E	FY21E	FY22E	FY23E	FY24E
Total Sales	232,887.0	280,522.0	75,452.0	88,912.0	92,833.3	115,780.5	372,977.8	438,862.4	510,822.4	584,907.6	661,115.9
Y/Y	30.9%	20.5%	26.4%	40.2%	32.7%	32.4%	33.0%	17.7%	16.4%	14.5%	13.0%
2yr Stack Y/Y	61.7%	51.4%	43.3%	60.1%	56.3%	53.2%	53.4%	50.6%	56.6%	47.2%	45.4%
Q/Q			-13.7%	17.8%	4.4%	24.7%					
Street	232,419.0	279,139.3	73,743.9	81,245.0	92,131.6	111,585.0	368,364.0	435,092.9	508,663.4	589,796.1	664,456.5
Guide			69-73	75-81	87-93						
Beat(Miss)		0.5%	2.3%	9.4%	0.8%	3.8%	1.3%	0.9%	0.4%	-0.8%	-0.5%
Total Product Sales	141,915.0	160,407.0	41,841.0	50,244.0	52,119.1	66,555.2	210,759.3	233,231.8	255,740.7	279,971.3	305,123.8
Y/Y	19.7%	13.0%	22.0%	40.1%	31.2%	31.7%	31.4%	10.7%	9.7%	9.5%	9.0%
2yr Stack Y/Y	44.9%	32.7%	30.5%	52.7%	48.9%	44.8%	44.4%	42.1%	49.8%	40.7%	40.7%
Q/Q			1.0%	1.0%	1.0%	1.0%					
Total Service sales	90,972.0	120,115.0	33,611.0	38,668.0	40,714.3	49,225.2	162,218.5	205,630.5	255,081.7	304,936.3	355,992.2
Y/Y	53.4%	32.0%	32.2%	40.4%	34.6%	33.4%	35.1%	26.8%	24.0%	19.5%	16.7%
2yr Stack Y/Y	96.9%	85.5%	63.0%	71.4%	67.1%	66.7%	67.1%	61.8%	64.4%	54.1%	50.2%
Q/Q			-72.0%	15.0%	5.3%	20.9%					
Cost of Revenue	139,156.0	165,536.0	44,257.0	52,660.0	54,113.9	70,883.4	221,914.3	247,306.1	279,770.3	313,645.8	345,298.6
Y/Y	24.3%	19.0%	30.5%	44.9%	31.0%	31.3%	34.1%	11.4%	13.1%	12.1%	10.1%
Q/Q			-18.0%	19.0%	2.8%	31.0%			13.1%	12.1%	10.1%
% of Revenue	59.8%	59.0%	58.7%	59.2%	58.3%	61.2%	59.5%	56.4%	54.8%	53.6%	52.2%
Share-Based Compensation	74.0	149.0	41.0	76.0	86.0	96.0	299.0	484.0	547.5	613.8	675.8
Cost - ex-SBC	139,082.0	165,387.0	44,216.0	52,584.0	54,027.9	70,787.4	221,615.3	246,822.1	279,222.8	313,032.0	344,622.8
% of Revenue ex-SBC	59.7%	59.0%	58.6%	59.1%	58.2%	61.1%	59.4%	56.2%	54.7%	53.5%	52.1%
				-1.92%							
Gross Profit	93,731.0	114,986.0	31,195.0	36,252.0	38,719.4	44,897.1	151,063.5	191,556.3	231,052.1	271,261.8	315,817.3
Y/Y	42.2%	22.7%	21.0%	33.9%	35.0%	34.2%	31.4%	26.8%	20.6%	17.4%	16.4%
Q/Q			-6.8%	16.2%	6.8%	16.0%					
Gross Margin	40.2%	41.0%	41.3%	40.8%	41.7%	38.8%	40.5%	43.6%	45.2%	46.4%	47.8%
Street Gross Margin		40.9%	42.6%	40.5%	40.5%	38.4%	40.1%	41.0%	42.0%	42.6%	42.4%
Revenues ex-AWS/Advertising/physical stores	179,899.0	214,218.0	56,687.0	70,109.0	72,549.5	92,749.6	292,095.1	339,319.2	388,819.4	438,657.4	487,892.5
COGS ex-AWS/Advertising/physical stores	126,432.9	152,093.0	40,525.6	49,520.6	50,971.1	67,471.7	208,489.0	233,411.3	264,112.9	296,869.7	326,531.2
"Retail Gross Profit" - GP ex-AWS/Advertising/physical stores	53,466.1	62,125.0	16,161.4	20,588.4	21,578.4	25,278.0	83,606.1	105,907.9	124,706.5	141,787.8	161,361.3
Y/Y	26.5%	16.2%	12.6%	40.2%	42.0%	41.3%	34.6%	26.7%	466.6%	457.4%	499.0%
2yr Stack Y/Y			35.6%	55.0%	56.3%	55.2%					
Q/Q			-9.7%	27.4%	4.8%	17.1%					
Fulfillment (Reported)	34,027.0	40,231.0	11,531.0	13,806.0	15,853.9	18,137.1	59,328.1	73,414.9	84,794.2	97,089.3	110,196.4
Y/Y	34.8%	18.2%	34.1%	48.9%	55.9%	48.8%	47.5%	23.7%	15.5%	14.5%	13.5%
Q/Q			-5.4%	19.7%	14.8%	14.4%					
Y/Y dollar Growth	8,778.00	6,204.00	2,930.00	4,535.00	5,686.93	5,945.14	19,097.07	14,086.78	11,379.30	12,295.15	13,107.06
% of Revenue	14.6%	14.3%	15.3%	15.5%	17.1%	15.7%	15.9%	16.7%	16.6%	16.6%	16.7%
% of Product Sales	24.0%	25.1%	27.6%	27.5%	28.5%	26.5%	28.1%	31.5%	33.2%	34.7%	36.1%
% of GP Retail Gross Profit	63.6%	64.8%	71.3%	67.1%	73.5%	71.8%	71.0%	69.3%	68.0%	68.5%	68.3%
Share-Based Compensation	1,120.0	1,181.0	260.0	417.0	442.0	467.0	1,586.0	1,962.6	2,266.8	2,595.5	2,945.8
Incremental Fulfillment/other costs from CV19				2,500.00	1,000.00	500.00					
Marketing	13,814.0	18,879.0	4,828.0	4,345.0	5,105.8	6,946.8	21,225.7	23,991.7	27,839.8	31,292.6	34,708.6
Y/Y	37.2%	36.7%	31.8%	1.3%	7.4%	12.6%	12.4%	13.0%	16.0%	12.4%	10.9%
Q/Q			-21.8%	-10.0%	17.5%	36.1%					
Y/Y dollar Growth	3,746.00	5,065.00	1,164.00	54.00	353.83	774.83	2,346.66	2,766.00	3,848.16	3,452.74	3,416.03
% of Revenue	5.9%	6.7%	6.4%	4.9%	5.5%	6.0%	5.7%	5.5%	5.5%	5.4%	5.3%
% of GP Retail Gross Profit	25.8%	30.4%	29.9%	21.1%	23.7%	27.5%	25.4%	22.7%	22.3%	22.1%	21.5%
Share-Based Compensation	769.0	1,136.0	332.0	456.0	461.0	466.0	1,715.0	1,938.5	2,249.4	2,528.4	2,804.4
Tech and content	28,837.0	35,932.0	9,325.00	10,388.0	11,159.2	12,104.9	42,977.1	55,102.1	68,450.2	78,962.5	89,250.7
Tech and content - ex incremental depreciation			9,925.0	11,056.4	11,609.2	12,479.9	45,070.5				
Incremental Depreciation			600.0	525.0	450.0	375.0					
Y/Y	27.5%	24.6%	17.6%	14.6%	21.3%	24.3%	19.6%	22.3%	24.2%	15.4%	13.0%
Q/Q			1.9%	11.4%	5.0%	7.5%					
Y/Y dollar Growth	6,217.00	7,095.00	1,398.00	1,991.40	2,409.22	2,739.91	9,138.52	10,031.55	13,348.13	10,512.33	10,288.12
% of Revenue	12.4%	12.8%	0.13	12.4%	12.5%	10.8%	11.5%	13.3%	13.4%	13.5%	13.5%
Share-Based Compensation	2,888.0	3,725.0	961.00	1,421.0	1,277.0	1,372.8	5,031.8	5,510.2	6,845.0	7,896.3	8,925.1
General and Administrative	4,336.0	5,203.0	1,452.0	1,580.0	1,659.0	1,708.8	6,399.8	7,449.9	8,428.6	9,358.5	10,247.3
Y/Y	18.1%	20.0%	23.8%	24.4%	23.1%	21.0%	23.0%	16.4%	13.1%	11.0%	9.5%
Q/Q			2.8%	8.8%	5.0%	3.0%					
% of Revenue	1.9%	1.9%	1.9%	1.8%	1.8%	1.5%	1.7%	1.7%	1.7%	1.6%	1.6%
Share-Based Compensation	567.0	673.0	163.0	231.0	236.0	241.0	871.0	1,013.9	1,147.1	1,273.7	1,394.6
Other operating Expense (income) net	297.0		70.0	290.0							
Total Costs and Expenses	220,467.0	265,982.0	71,463.0	83,069.0	87,891.9	109,781.0	352,204.9	407,264.6	469,283.1	530,348.7	589,701.5
Y/Y	26.9%	20.6%	29.3%	37.7%	31.5%	31.4%	32.4%	15.6%	15.2%	13.0%	11.2%
Q/Q			-14.5%	16.2%	5.8%	24.9%					
Guide											
% of Revenue	94.7%	94.8%	94.7%	93.4%	94.7%	94.8%	94.4%	92.8%	91.9%	90.7%	89.2%
Share-Based Compensation	5,418.0	6,864.0	1,757.0	2,601.0	2,502.0	2,642.8	9,502.8	11,595.2	13,055.9	14,907.6	16,745.7
Income from Operations	12,420.0	14,540.0	3,989.0	5,843.0	4,941.5	5,999.5	20,772.9	31,597.7	41,539.3	54,558.9	71,414.5
% Operating Margin	5.3%	5.2%	5.3%	6.6%	5.3%	5.2%	5.6%	7.2%	8.1%	9.3%	10.8%
Y/Y	202.4%	17.1%	29.3%	85.1%	27.4%	-58.7%	42.9%	52.1%	31.5%	31.3%	30.9%
Q/Q			2.8%	46.5%	-15.4%	21.4%					
Guide			3-4.2bn	(1.5) -1.5	2-5bn						
Street	12,368.0	13,586.8	3,941.7	420.2	4,283.0	4,680.0	19,325.3	28,178.0	42,448.0		
Beat/(Miss)	0%	7%	1%	1290%	15%	28%	7%	12%	-2%		
Interest Income	441.0	833.0	202.0	135.0	160.0	185.0	682.0	750.2	825.2	907.7	998.5
Interest Expense	(1,418.0)	(1,600.0)	-402.0	-403.0							
Other Income (Expense), Net	-182.0	202.0	-406.0	646.0	646.0	646.0	1,532.0	20.0	20.0	20.0	20.0
Total Non-operating Income (expense)	-1,159.0	-565.0	-606.0	378.0							
Income Before Provision for Income taxes	11,261.0	13,975.0	3,383.0	6,221.0	4,941.5	5,999.5	20,544.9	32,367.9	42,384.5	55,486.6	72,433.0
Provision (Benefit) for Income Taxes	1,196.0	2,373.0	744.0	984.0	938.9	1,139.9	3,806.8	5,826.2	7,629.2	8,323.0	10,864.9
Equity-method investment activity, net of tax			-104.0	6.0							
% Effective Tax Rate	10.6%	17.0%	19.0%	19.0%	19.0%	19.0%	18.5%	18.0%	18.0%	15.0%	15.0%
Net Income	10,073.0	11,588.0	2,535.0	5,243.0	4,002.6	4,859.6	16,640.1	26,541.7	34,755.3	47,163.7	61,568.0
% Net Margin	4.3%	4.1%	3.4%	5.9%	4.3%	4.2%	4.5%	6.0%	6.8%	8.1%	9.3%
GAAP Earnings Per Share	20.68	23.47	5.09	10.49	7.96	9.60	33.14	49.75	66.58	88.99	114.44
Street	19.77	20.60	6.27	1.51	7.28	8.88	31.53	45.18	62.87	81.52	81.52
Beat		14%	-19%	595%	9%	8%	5%	0.10	0.06	0.09	0.40
Basic Share Count	487.1	493.9	498.0	500.0	503.0	506.0	501.8	514.0	522.0	530.0	538.0
Adjusted EBITDA	19,806.0	40,241.0	9,654.0	13,046.0	13,736.5	15,523.4	51,959.8	71,182.6	89,118.2	112,465.9	78,313.8
EBIT	10,073.0	11,588.0	2,535.0	5,243.0	4,002.6	4,859.6	16,640.1	26,541.7	34,755.3	47,163.7	61,568.0
Stock Based-Comp	5,418.0	6,864.0	1,757.0	2,601.0	2,502.0	2,642.8	9,502.8	11,595.2	13,055.9	14,907.6	16,745.7
Depreciation and Amortization	4,315.0	21,789.0	5,362.0	5,202.0	7,231.9	8,021.0	25,816.9	33,045.6	41,307.0	50,394.6	0.0
Income from Operations ex-SBC	16,679.0	20,839.0	5,140.0	8,822.0	7,443.5	8,642.3	30,047.7	43,963.2	55,440.4	70,394.3	89,178.7
%Operating Margin ex-SBC	7.2%	7.4%	6.8%	9.9%	8.0%	7.5%	8.1%	10.0%	10.9%	12.0%	13.5%
Adjusted EPS	3.45	23.01	5.01	10.30	7.80	9.42	32.56	51.64	66.58	88.99	114.44
Diluted Shares	2,921.0	503.5	506.0	509.0	513.0	516.0	511.0	514.0	522.0	530.0	538.0
FCF											
Net Income	10,073.0	11,588.0	2,535.0	5,243.0	4,002.6	4,859.6	16,640.1	26,541.7	34,755.3	47,163.7	61,568.0
Depreciation	4,315.0	21,789.0	5,362.0	5,202.0	7,231.9	8,021.0	25,816.9	33,045.6	41,307.0	50,394.6	0.0
Stock Comp	5,418.0	6,864.0	1,757.0	2,601.0	2,502.0	2,642.8	9,502.8	11,595.2	13,055.9	14,907.6	16,745.7
Change in working Capital	10,918.0	12,668.3	(9,411.6)	3,600.0	4,800.0	16,213.5	15,201.9	18,242.3	21,890.7	26,268.9	31,522.7
Cash Flow from Operations	30,724.0	52,909.3	242.4	16,646.0	18,536.5	31,736.9	67,161.7	89,424.8	111,009.0	138,734.7	109,836.4
Capex	(11,322.0)	(13,902.0)	(5,428.0)	(7,459.0)	(5,286.6)	(4,532.2)	(22,705.7)	(26,111.6)	(29,375.5)	(32,313.0)	0.0
FCF	19,402.0	39,007.3	(5,185.6)	9,187.0	13,249.9	27,204.7	44,456.0	63,313.3	81,633.5	106,421.7	109,836.4
Y/Y	133.9%	101.0%	492.6%	-9.5%	49.2%	30.5%	14.0%	42.4%	28.9%	30.4%	3.2%
Q/Q			-124.9%	-277.2%	44.2%	105.3%					

WHERE WE COULD BE WRONG: 1) AWS continues to slow faster than we expect, 2) 3rd party fees at 26.7% for 2018 (we model their exit run rate for Q4 at 27.3%) see material pressure. AMZN began reducing some fees over the last 2 months - we are nervous that they could actually be way too high, but don't know how to handicap magnitude, 3) offline retail is able to strike back harder than we appreciate – we are surprised WMT already had its wheels in motion in terms of a response 4) we are underestimating the size of the investment cycle. Incremental investment for one-day is impacting shipping costs – if they really want to get this right, it could be a material investment in fulfillment too.

RISKS: 1) Over saturation of AMZN within eCommerce, 2) macro-economic deceleration causes greater than expected declines in commerce, 3) AWS slows materially, and 4) anti-trust action.

Appendix: Important Disclosures

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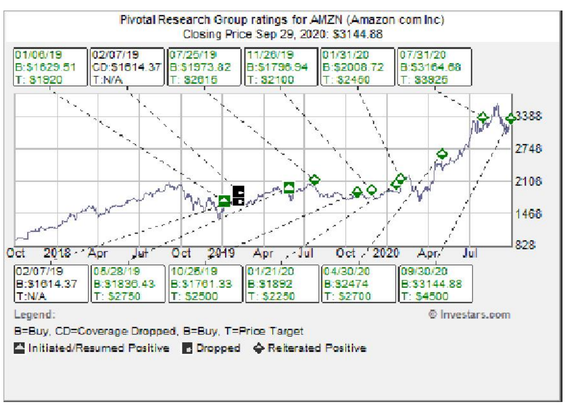
Price Chart and Target Price History



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