

Amazon.com, Inc. (AMZN)

Prime Day 2017 - Bigger and Better

INVESTMENT HIGHLIGHTS: Amazon's Prime day is here. While difficult to determine the impact of Amazon's Prime Day on revenue, industry analysts have estimated sales contribution of ~\$400M in 2015 and ~\$600M in 2016, a 50% y/y growth. We expect the growth rates to decelerate this year given the larger base, but believe sales could reach \$700-900M. We point to several highlights of this year's event that could propel growth above our expectations, including extended hours, deeper discounts on Amazon devices, and discounts on subscription services, and geographic expansion. However, more than boosting sales, we believe Prime Day continues to be strategic to driving Prime membership adoption. With an estimated 85M Prime members, up 30% y/y, the key is 2x increased spending that comes from members vs non-members. We also believe Amazon finds Prime members more readily renew and are easier to retain. Finally, Prime members typically increase their spending over time.

- On July 11, Amazon is hosting its third annual Prime Day. Amazon disclosed that orders increased 60% y/y worldwide and 50% y/y in U.S. during last year's Prime Day. While it's difficult to determine the impact of Amazon's Prime Day on revenue, industry analysts have estimated sales contribution of ~\$400M in 2015 and ~\$600M in 2016, a 50% y/y growth. We expect the growth rates to decelerate this year given the larger base, but believe sales could reach \$700-900M.
- We point to several highlights of this year's event that could propel growth above our expectations: **1) Extended hours.** This year, Prime Day is set to start on the night of July 10 and the deals will last 30 hours, a six-hour extension from 2016. We believe longer hours could lead to record sales levels. **2) Deeper discounts on Amazon devices.** We believe Amazon is putting particular emphasis on its voice-controlled devices. For example, Amazon Echo is 50% off, or a discount of ~\$90 vs. \$50 last year, and the Alexa-enabled Fire tablet starts at \$29.99, vs. \$33.33 last year. **3) Subscription services.** In addition to discounts on thousands of physical items, this year's Prime Day includes discounts on Amazon's Music Unlimited subscription and Audible memberships. **4) Geographic expansion.** This year, three new countries - China, India and Mexico - will join the one-day sales event, bringing the total to 13 participating countries.
- More than boosting sales, we believe Prime Day continues to be strategic to Prime membership adoption. According to Consumer Intelligence Research Partners' (CIRP's) latest estimate, Amazon now has 85MM Prime members in U.S. alone, representing growth of 30% y/y from 65MM last year. We expect Prime Day to continue driving hundreds of thousands of new members as in previous years. CIRP further highlights that Amazon Prime members on average spend \$1300 annually vs. \$700 by non-member customers. We believe Amazon finds Prime members more readily renew and are easier to retain. Finally, Prime members typically increase their spending over time. We also believe Amazon aims to drive higher publicity of its new product categories through Prime Day, such as Alexa-exclusive deals, Prime-Now exclusive deals, as well as 50% off its private label grocery products.

COMPANY FLASH

Stock Rating	BUY
	Unchanged
Price Target	\$1,150.00

Internet & Digital Media

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Stock Price Performance

Amazon.com, Inc. 07/11/17



Market Data

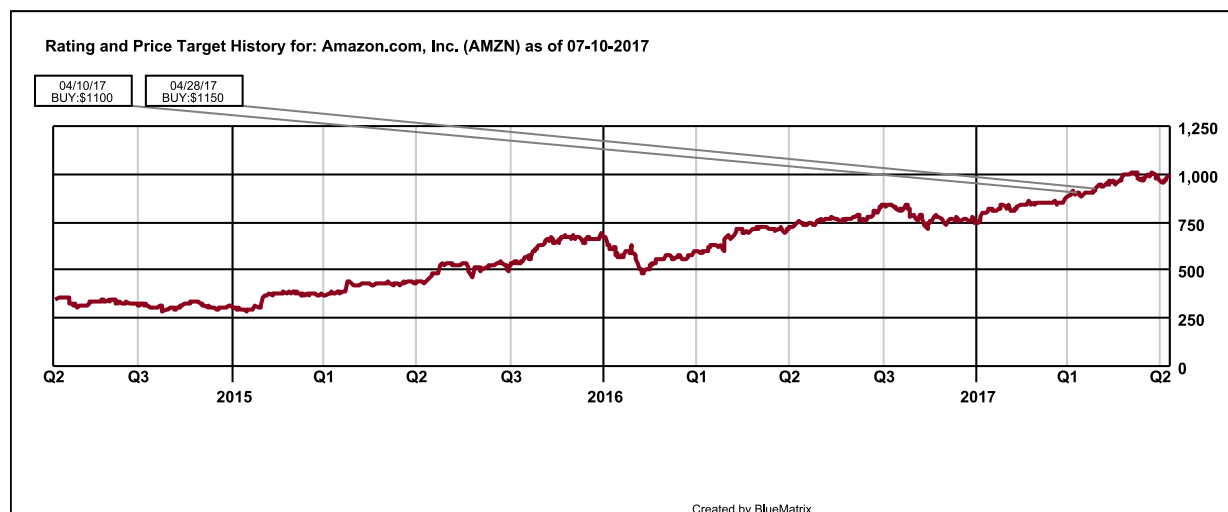
Price (07/10/2017)	\$996.47
52-Week Range	\$1,017.00 - \$710.10
Shares Outstanding	477.98
Market Cap (MM)	\$476,288.3
Avg. Daily Volume	3,747,620.0
Total Debt/Cap.	51.42%

Valuation (Price Target: \$1,150.00)

- Our price target of \$1,150 is based on the sum-of-the-parts analysis, which evaluates North America and International segments using EV/Revenue multiple, and AWS segment using EV/EBITDA multiple. Our price target is below 7.7x FY17 Sales multiple of its large-cap peers.

Risks to Target

- Risks to attaining our share price target include, but are not limited to: 1) a decline in discretionary consumer spending, 2) slow adoption of Prime membership internationally, 3) increased e-commerce competition both domestically and internationally, 4) slowdown of revenue and operating margin growth of AWS due to competition and continued pricing cuts, 5) lack of traction in new products, such as groceries and home services, and 6) potential regulatory changes and uncertainties particularly in international markets.



ANALYST CERTIFICATION

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Buy	64	15
Hold	26	4
Underperform	1	0
Rating Suspended	< 1	0
Restricted	0	0

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