



Amazon.com, Inc.

## A Rare Miss

**The Key Take-Away:** AMZN reported revenue and OI that were 2% and 1% below consensus and guided 3Q below. This kind of miss is a rare occurrence for a high quality name like AMZN, but forecasting the back side of the pandemic surge is proving challenging for many companies, and despite the deceleration, AMZN continues to add prime members and gain e-commerce share. This print won't derail the long-term bull case around AWS and retail, but likely means we are range bound for the next few months until a catalyst emerges.

**Positives In 2Q:** Advertising growth accelerated (Other +83% Y/Y) and is helping offset cost pressures elsewhere in retail. Similarly, AWS accelerated another 500bps and is now up 900bps in the past two quarters, the highest Y/Y and Q/Q dollar growth ever, and gaining share on the rest of the industry. Amazon Fulfilled Units were up "close to 30% Y/Y" which indicates that despite some cost inflation, unit economics are actually performing in line with trend (shipping/fulfilment per unit).

**Negative Items To Monitor:** Comparable are a little all over the map now that we are lapping a fairly slow start to 2Q last year and a significant acceleration, optically the deceleration this year looks worse than expected. The next two quarters look even heavier given the prime day comp, but the company is seeing organic 2-yr CAGRs in the mid 20%'s, above pre-Covid levels. Costs appear to be inflating in areas outside of AMZN's control (labor/fuel/etc.) into this deceleration, creating a nasty retail OI margin compression. AWS margins were down 270bps on salesforce and infrastructure investments.

**Estimate Changes & Valuation:** We are reducing our estimates and our PT is now \$4,130, based on the consistent SOTPs valuation framework using Amazon's retail (average of 30x EBITDA and 3x revenue) and AWS (8x revenue) on our FY22E numbers.

### AMZN: Quarterly and Annual EPS (USD)

|        | 2020   |        | 2021   |        | 2022   |        | Change y/y |       |      |
|--------|--------|--------|--------|--------|--------|--------|------------|-------|------|
| FY Dec | Actual | Old    | New    | Cons   | Old    | New    | Cons       | 2021  | 2022 |
| Q1     | 7.21A  | 17.21A | 17.21A | 15.79A | 18.36E | 15.93E | 19.69E     | 139%  | -7%  |
| Q2     | 12.53A | 15.61E | 16.66A | 15.75E | 20.53E | 19.99E | 18.35E     | 33%   | 20%  |
| Q3     | 12.52A | 16.15E | 12.60E | 16.07E | 19.61E | 16.98E | 20.57E     | 0.64% | 35%  |
| Q4     | 13.41A | 18.04E | 14.95E | 17.70E | 21.58E | 21.33E | 20.71E     | 11%   | 43%  |
| Year   | 45.72A | 67.02E | 61.46E | 67.65E | 80.09E | 74.26E | 84.04E     | 34%   | 21%  |
| P/E    | 78.7   |        | 58.6   |        |        | 48.5   |            |       |      |

Source: Barclays Research.

Consensus numbers are from Bloomberg received on 29-Jul-2021; 12:50 GMT

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### Equity Research

Internet & Media | U.S. Internet  
30 July 2021

Stock Rating **OVERWEIGHT**  
Unchanged

Industry View **POSITIVE**  
Unchanged

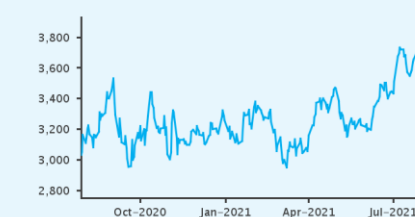
Price Target **USD 4130.00**  
lowered -4% from USD 4300.00

Price (29-Jul-2021) USD 3599.92  
Potential Upside/Downside +14.7%  
Tickers AMZN

Market Cap (USD mn) 1815525  
Shares Outstanding (mn) 504.32  
Free Float (%) 85.77  
52 Wk Avg Daily Volume (mn) 4.0  
Dividend Yield (%) N/A  
Return on Equity TTM (%) 31.91  
Current BVPS (USD) 205.00

Source: Bloomberg

Price Performance Exchange-Nasdaq  
52 Week range USD 3773.08-2871.00



Source: IDC; Link to Barclays Live for interactive charting

### U.S. Internet

Ross Sandler

+1 415 263 4470

ross.sandler@barclays.com

BCI, US

Mario Lu

+1 212 526 4885

mario.lu@barclays.com

BCI, US

Trevor Young, CFA

+1 212 526 3098

trevor.young@barclays.com

BCI, US

Thomas Chadwick

+1 212 526-3385

thomas.chadwick@barclays.com

BCI, US

| U.S. Internet                             |  |           |           |           |           | Industry View: POSITIVE  |   |              |
|---|--|-----------|-----------|-----------|-----------|--------------------------|---|--------------|
| Amazon.com, Inc. (AMZN)                   |  |           |           |           |           | Stock Rating: OVERWEIGHT |   |              |
| Income statement (\$mn)                   |  | 2020A     | 2021E     | 2022E     | 2023E     | CAGR                     | Price (29-Jul-2021)   | USD 3,599.92 |
| Revenue                                   |  | 386,064   | 473,206   | 576,000   | 704,608   | 22.2%                    | Price Target  | USD 4,130.00 |
| Gross profit                              |  | 153,040   | 195,578   | 246,442   | 312,354   | 26.8%                    | <b>Why Overweight?</b> Amazon is the leader in the biggest TAM & lowest penetration sectors in consumer internet & enterprise (e-commerce, cloud etc.), and continues to expand its moat through strong execution.            |              |
| EBITDA (adj)                              |  | 57,284    | 75,369    | 90,373    | 113,328   | 25.5%                    |   |              |
| EBIT (adj)                                |  | 32,033    | 41,676    | 52,677    | 70,366    | 30.0%                    |   |              |
| Pre-tax income (adj)                      |  | 33,312    | 44,844    | 54,545    | 72,394    | 29.5%                    |   |              |
| Net income (adj)                          |  | 23,318    | 31,391    | 38,181    | 50,676    | 29.5%                    |   |              |
| EPS (adj) (\$)                            |  | 45.72     | 61.46     | 74.26     | 97.00     | 28.5%                    | <b>Upside case</b> USD 5,000.00   |              |
| Diluted shares (mn)                       |  | 510.0     | 510.8     | 514.2     | 522.4     | 0.8%                     |   |              |
| DPS (\$)                                  |  | 0.00      | 0.00      | 0.00      | 0.00      | N/A                      | <b>Downside case</b> USD 3,000.00   |              |
| <b>Margin and return data</b>             |  |           |           |           |           |                          |   |              |
| Average                                   |  |           |           |           |           |                          |   |              |
| EBITDA (adj) margin (%)                   |  | 14.8      | 15.9      | 15.7      | 16.1      | 15.6                     |   |              |
| EBIT (adj) margin (%)                     |  | 8.3       | 8.8       | 9.1       | 10.0      | 9.1                      |   |              |
| Pre-tax (adj) margin (%)                  |  | 8.6       | 9.5       | 9.5       | 10.3      | 9.5                      |   |              |
| Net (adj) margin (%)                      |  | 6.0       | 6.6       | 6.6       | 7.2       | 6.6                      | <b>Upside/Downside scenarios</b>  |              |
| ROIC (%)                                  |  | 21.7      | 25.1      | 27.6      | 26.7      | 25.3                     |   |              |
| ROE (%)                                   |  | 27.4      | 36.7      | 41.1      | 33.8      | 34.8                     |   |              |
| <b>Balance sheet and cash flow (\$mn)</b> |  |           |           |           |           | CAGR                     | <p>Price History Prior 12 months High</p> <p>Price Target Next 12 months Upside</p> <p>5,000.00</p> <p>3,773.08 Current</p> <p>3,599.92</p> <p>4,130.00 Target</p> <p>3,000.00</p> <p>2,871.00</p> <p>Low</p> <p>Downside</p> |              |
| Tangible fixed assets                     |  | 113,114   | 137,718   | 160,219   | 192,297   | 19.3%                    |   |              |
| Intangible fixed assets                   |  | 15,017    | 15,350    | 15,350    | 15,350    | 0.7%                     |   |              |
| Cash and equivalents                      |  | 42,122    | 49,790    | 61,150    | 72,017    | 19.6%                    |   |              |
| Total assets                              |  | 321,195   | 323,176   | 388,046   | 447,708   | 11.7%                    |   |              |
| Short and long-term debt                  |  | 31,816    | 50,279    | 50,279    | 50,279    | 16.5%                    |   |              |
| Other long-term liabilities               |  | 69,590    | 77,445    | 77,445    | 77,445    | 3.6%                     |   |              |
| Total liabilities                         |  | 227,791   | 260,292   | 277,862   | 274,346   | 6.4%                     |   |              |
| Shareholders' equity                      |  | 93,404    | 62,884    | 110,183   | 173,362   | 22.9%                    |   |              |
| Net debt/(funds)                          |  | -10,306   | 489       | -10,871   | -21,738   | N/A                      |   |              |
| Change in working capital                 |  | 19,482    | -13,919   | -1,743    | -4,950    | N/A                      |   |              |
| Cash flow from operations                 |  | 66,064    | 48,414    | 71,557    | 85,908    | 9.1%                     |   |              |
| Capital expenditure                       |  | -38,774   | -48,733   | -60,196   | -75,041   | N/A                      |   |              |
| Free cash flow                            |  | 27,290    | -319      | 11,361    | 10,867    | -26.4%                   |   |              |
| <b>Valuation and leverage metrics</b>     |  |           |           |           |           | Average                  |   |              |
| P/E (adj) (x)                             |  | 78.7      | 58.6      | 48.5      | 37.1      | 55.7                     |   |              |
| EV/sales (x)                              |  | 4.6       | 3.8       | 3.1       | 2.5       | 3.5                      |   |              |
| EV/EBITDA (adj) (x)                       |  | 30.8      | 23.6      | 19.5      | 15.5      | 22.3                     |   |              |
| FCF yield (%)                             |  | 1.5       | -0.0      | 0.6       | 0.6       | 0.7                      |   |              |
| Dividend yield (%)                        |  | 0.0       | 0.0       | 0.0       | 0.0       | 0.0                      |   |              |
| Net debt/EBITDA (adj) (x)                 |  | -0.2      | 0.0       | -0.1      | -0.2      | -0.1                     |   |              |
| <b>Selected operating metrics (\$mn)</b>  |  |           |           |           |           | CAGR                     |   |              |
| North America revenue                     |  | 236,282   | 280,818   | 337,415   | 405,859   | 19.8%                    |   |              |
| International revenue                     |  | 104,412.0 | 130,958.0 | 158,626.9 | 197,771.3 | 23.7%                    |   |              |
| Media revenue                             |  | 29,523    | 31,454    | 32,899    | 34,544    | 5.4%                     |   |              |
| ECM revenue                               |  | 208,427   | 254,829   | 307,638   | 372,496   | 21.4%                    |   |              |
| Other revenue                             |  | 51,503    | 69,648    | 90,980    | 115,762   | 31.0%                    |   |              |

Source: Company data, Bloomberg, Barclays Research  
Note: FY End Dec

## AMZN 2Q21 Earnings

FIGURE 1

## 2Q21 Earnings Summary

## Quarterly Comparison versus Barclays Estimates

2Q21

(USD in mn, unless noted)

|   | Actual         | Barclays Estimate | Delta        | Consensus      | Prior Year Quarter | % Y/Y      | % Q/Q      |
|---|----------------|-------------------|--------------|----------------|--------------------|------------|------------|
| <b>Income Statement</b>                     |                |                   |              |                |                    |            |            |
| Online Stores (Retail Products - 1P ex WFM) | 53,157         | 55,914            | -4.9%        | 57,270         | 45,896             | 16%        | 0%         |
| Physical Stores                             | 4,198          | 3,925             | 6.9%         | 4,020          | 3,774              | 11%        | 7%         |
| Third-Party Seller Services                 | 25,085         | 24,896            | 0.8%         | 24,780         | 18,195             | 38%        | 6%         |
| Subscription Services                       | 7,917          | 7,933             | -0.2%        | 7,910          | 4,221              | 88%        | 15%        |
| AWS   | 14,809         | 14,313            | 3.5%         | 14,200         |                    |            |            |
| Other                                       | 7,914          | 7,464             | 6.0%         | 7,010          | 10,808             | -27%       | 10%        |
| <b>Net Sales</b>                            | <b>113,080</b> | <b>114,446</b>    | <b>-1.2%</b> | <b>115,370</b> | <b>88,912</b>      | <b>27%</b> | <b>4%</b>  |
| Cost of Sales                               | 64,031         | 66,626            | -3.9%        |                | 52,584             | 22%        | 3%         |
| <b>Gross Profit</b>                         | <b>49,049</b>  | <b>47,820</b>     | <b>2.6%</b>  | <b>47,994</b>  | <b>36,328</b>      | <b>35%</b> | <b>6%</b>  |
| Gross Margin                                | 43.4%          | 41.8%             | 159 bps      | 41.6%          | 41%                | 252 bps    | 80 bps     |
| <b>Operating Expenses:</b>                  |                |                   |              |                |                    |            |            |
| Fulfillment                                 | 17,072         | 17,027            | 0.3%         |                | 13,389             | 28%        | 5%         |
| Marketing                                   | 6,833          | 5,006             | 36.5%        |                | 3,889              | 76%        | 19%        |
| Technology and Content                      | 11,984         | 12,687            | -5.5%        |                | 8,967              | 34%        | 6%         |
| General and Administrative                  | 1,856          | 1,965             | -5.6%        |                | 1,349              | 38%        | 3%         |
| Stock-Based Compensation                    | 3,591          | 3,485             | 3.0%         |                | 2,601              | 38%        | 56%        |
| <b>Total Operating Expenses</b>             | <b>41,347</b>  | <b>40,170</b>     | <b>2.9%</b>  |                | <b>30,485</b>      | <b>36%</b> | <b>11%</b> |
| Reported Income from Operations             | 7,702          | 7,650             | 0.7%         | 7,780          | 5,843              | 32%        | -13%       |
| Total Adjusted Operating Expenses           | 37,745         | 36,685            | 2.9%         |                | 27,594             | 37%        | 8%         |
| North America - OI%                         | 4.7%           | 4.4%              | 24 bps       |                | 3.9%               | 80 bps     |            |
| International - OI%                         | 1.2%           | 0.5%              | 73 bps       |                | 1.5%               | -34 bps    |            |
| AWS - OI%                                   | 28.3%          | 31.6%             | -325 bps     |                | 31.1%              | -275 bps   |            |
| Pro Forma Income from Operations            | 11,304         | 11,136            | 1.5%         |                | 8,734              | 29%        | 1%         |
| <b>Adjusted EBITDA</b>                      | <b>19,342</b>  | <b>19,384</b>     | <b>-0.2%</b> | <b>18,484</b>  | <b>14,482</b>      | <b>34%</b> | <b>3%</b>  |
| Adjusted EBITDA to Revenue                  | 17.1%          | 16.9%             | 17 bps       |                | 16%                | 17%        | -14 bps    |
| Interest Income                             | 106            | 396               | -73.2%       |                | 135                | -21%       | 1%         |
| Interest Expense                            | (435)          | (68)              | 537.4%       |                | (403)              | 8%         | 9%         |
| Pro Forma Pretax Income                     | 12,236         | 11,463            | 6.7%         |                | 9,112              | 34%        | -3%        |
| Effective Tax Rate                          | 10%            | 21%               | -52.1%       |                | 16%                | NM         | NM         |
| Pro Forma Net Income                        | 8,565          | 8,024             | 6.7%         |                | 6,378              | 34%        | -3%        |
| Pro Forma Earnings per Share                | \$16.66        | \$15.61           | 6.7%         | \$15.75        | \$12.53            | 33%        | -3%        |
| Reported Earnings per Share                 | \$15.13        | \$12.26           | 23.4%        | \$12.28        | \$10.30            | 47%        | -4%        |

Source: Barclays Research, Company Reports. Consensus from Bloomberg

## Estimate Changes

FIGURE 2

## Estimate Change Summary

|   | New Est.         | 3Q21E<br>Old Est. | Delta         | New Est.         | 2021E<br>Old Est. | Delta         | New Est.         | 2022E<br>Old Est. | Delta         | New Est.         | 2023E<br>Old Est. | Delta        |
|---|------------------|-------------------|---------------|------------------|-------------------|---------------|------------------|-------------------|---------------|------------------|-------------------|--------------|
| <b>North America</b>                          |                  |                   |               |                  |                   |               |                  |                   |               |                  |                   |              |
| Media   | \$4,131          | \$4,131           | 0.0%          | \$17,450         | \$17,450          | 0.0%          | \$18,323         | \$18,323          | 0.0%          | \$19,239         | \$19,239          | 0.0%         |
| EGM   | \$38,138         | \$38,138          | 0.0%          | \$161,740        | \$161,740         | 0.0%          | \$194,088        | \$194,088         | 0.0%          | \$232,905        | \$232,905         | 0.0%         |
| Other   | \$1,750          | \$1,750           | 0.0%          | \$7,471          | \$7,471           | 0.0%          | \$10,086         | \$10,086          | 0.0%          | \$13,617         | \$13,617          | 0.0%         |
| <b>International</b>                          |                  |                   |               |                  |                   |               |                  |                   |               |                  |                   |              |
| Media   | \$3,233          | \$3,295           | -1.9%         | \$14,004         | \$13,952          | 0.4%          | \$14,576         | \$14,861          | -1.9%         | \$15,305         | \$15,604          | -1.9%        |
| EGM   | \$23,949         | \$24,332          | -1.6%         | \$93,089         | \$92,884          | 0.2%          | \$113,550        | \$115,443         | -1.6%         | \$139,591        | \$141,917         | -1.6%        |
| Other   | \$189            | \$189             | 0.0%          | \$748            | \$748             | 0.0%          | \$935            | \$935             | 0.0%          | \$1,168          | \$1,168           | 0.0%         |
| Retail products                               | \$56,208         | \$59,847          | -6.1%         | \$244,983        | \$258,424         | -5.2%         | \$286,255        | \$304,241         | -5.9%         | \$340,737        | \$362,321         | -6.0%        |
| Retail third-party seller services            | \$22,528         | \$25,702          | -12.3%        | \$100,090        | \$108,704         | -7.9%         | \$123,913        | \$138,219         | -10.3%        | \$154,892        | \$172,774         | -10.3%       |
| Retail subscription services                  | \$7,902          | \$8,594           | -8.1%         | \$31,538         | \$33,348          | -5.4%         | \$37,379         | \$41,454          | -9.8%         | \$44,855         | \$54,352          | -17.5%       |
| Other   | \$9,190          | \$8,408           | 9.3%          | \$35,561         | \$33,980          | 4.7%          | \$48,910         | \$44,307          | 10.4%         | \$63,583         | \$57,599          | 10.4%        |
| AWS   | \$15,846         | \$15,315          | 3.5%          | \$61,429         | \$59,978          | 2.4%          | \$79,959         | \$77,410          | 3.3%          | \$100,977        | \$96,221          | 4.9%         |
| <b>Net Sales</b>                              | <b>\$111,739</b> | <b>\$117,933</b>  | <b>-5.3%</b>  | <b>\$473,206</b> | <b>\$493,767</b>  | <b>-4.2%</b>  | <b>\$576,000</b> | <b>\$604,930</b>  | <b>-4.8%</b>  | <b>\$704,608</b> | <b>\$742,531</b>  | <b>-5.1%</b> |
| Cost of Sales                                 | \$64,856         | \$68,454          | -5.3%         | \$277,627        | \$291,481         | -4.8%         | \$329,558        | \$348,100         | -5.3%         | \$392,253        | \$415,891         | -5.7%        |
| <b>Gross Profit</b>                           | <b>\$46,883</b>  | <b>\$49,478</b>   | <b>-5.2%</b>  | <b>\$195,578</b> | <b>\$202,286</b>  | <b>-3.3%</b>  | <b>\$246,442</b> | <b>\$256,830</b>  | <b>-4.0%</b>  | <b>\$312,354</b> | <b>\$326,641</b>  | <b>-4.4%</b> |
| Gross Margin                                  | 42.0%            | 42.0%             | 00 bps        | 41.3%            | 41.0%             | 36 bps        | 42.8%            | 42.5%             | 33 bps        | 44.3%            | 44.0%             | 34 bps       |
| <b>Operating Expenses:</b>                    |                  |                   |               |                  |                   |               |                  |                   |               |                  |                   |              |
| Fulfillment                                   | \$17,693         | \$17,498          | 1.1%          | \$71,726         | \$72,233          | -0.7%         | \$87,902         | \$88,974          | -1.2%         | \$106,857        | \$109,957         | -2.8%        |
| Marketing                                     | \$6,356          | \$6,118           | 3.9%          | \$26,656         | \$25,309          | 5.3%          | \$34,203         | \$32,810          | 4.2%          | \$43,953         | \$42,500          | 3.4%         |
| Technology and Content                        | \$12,401         | \$12,499          | -0.8%         | \$48,194         | \$50,161          | -3.9%         | \$62,765         | \$67,493          | -7.0%         | \$80,299         | \$90,277          | -11.1%       |
| General and Administrative                    | \$1,725          | \$1,820           | -5.3%         | \$7,326          | \$7,712           | -5.0%         | \$8,894          | \$9,443           | -5.8%         | \$10,880         | \$11,592          | -6.1%        |
| Stock-Based Compensation                      | \$2,793          | \$2,948           | -5.3%         | \$11,712         | \$12,042          | -2.7%         | \$14,961         | \$15,500          | -3.5%         | \$19,146         | \$19,915          | -3.9%        |
| Total Operating Expenses                      | \$40,968         | \$40,884          | 0.2%          | \$165,664        | \$167,496         | -1.1%         | \$208,725        | \$214,220         | -2.6%         | \$261,134        | \$274,242         | -4.8%        |
| <b>Reported Income from Operations</b>        | <b>\$5,915</b>   | <b>\$8,594</b>    | <b>-31.2%</b> | <b>\$29,915</b>  | <b>\$34,790</b>   | <b>-14.0%</b> | <b>\$37,717</b>  | <b>\$42,611</b>   | <b>-11.5%</b> | <b>\$51,220</b>  | <b>\$52,399</b>   | <b>-2.3%</b> |
|   |                  |                   |               | 6.3%             | 7.0%              |               | 6.5%             | 7.0%              |               | 7.3%             | 7.1%              |              |
| Total Adjusted Operating Expenses             | \$38,175         | \$37,936          | 0.6%          | \$165,615        | \$167,458         | -1.1%         | \$208,725        | \$214,220         | -2.6%         | \$261,134        | \$274,242         | -4.8%        |
| <b>Adjusted Income from Operations</b>        | <b>\$8,708</b>   | <b>\$11,542</b>   | <b>-24.6%</b> | <b>\$41,676</b>  | <b>\$46,871</b>   | <b>-11.1%</b> | <b>\$52,677</b>  | <b>\$58,110</b>   | <b>-9.3%</b>  | <b>\$70,366</b>  | <b>\$72,315</b>   | <b>-2.7%</b> |
| <b>Adjusted EBITDA</b>                        | <b>\$17,435</b>  | <b>\$20,560</b>   | <b>-15.2%</b> | <b>\$75,369</b>  | <b>\$81,459</b>   | <b>-7.5%</b>  | <b>\$90,373</b>  | <b>\$96,836</b>   | <b>-6.7%</b>  | <b>\$113,328</b> | <b>\$116,166</b>  | <b>-2.4%</b> |
| <i>Adjusted EBITDA to Gross Profit Margin</i> | 37.2%            | 41.6%             | 00 bps        | 38.5%            | 40.3%             | -173 bps      | 36.7%            | 37.7%             | -103 bps      | 36.3%            | 35.6%             | 72 bps       |
| Pro Forma Pretax Income                       | \$9,126          | \$11,903          | -23.3%        | \$44,844         | \$49,332          | -9.1%         | \$54,545         | \$59,860          | -8.9%         | \$72,394         | \$74,235          | -2.5%        |
| Effective Tax Rate                            | 0.10             | 21%               | -52.1%        | 13%              | 21%               | -35.9%        | 0.10             | 21%               | -52.1%        | 0.10             | 21%               | -52.1%       |
| <b>Pro Forma Earnings per Share</b>           | <b>\$12.60</b>   | <b>\$16.15</b>    | <b>-22.0%</b> | <b>\$61.46</b>   | <b>\$67.02</b>    | <b>-8.3%</b>  | <b>\$74.26</b>   | <b>\$80.09</b>    | <b>-7.3%</b>  | <b>\$97.00</b>   | <b>\$97.77</b>    | <b>-0.8%</b> |
| Reported Earnings per Share                   | \$11.23          | \$13.71           | -18.1%        | \$56.07          | \$57.10           | -1.8%         | \$69.25          | \$66.98           | 3.4%          | \$91.68          | \$80.74           | 13.5%        |

Source: Barclays Research, Company Reports

## Valuation

We are maintaining our OW rating and decreasing our price target from \$4,300 to \$4,130. Our valuation framework, which is unchanged, reflects a SOTP for Amazon's retail (average of 30x EBITDA and 3x revenue) and AWS (8x revenue), on our FY22E numbers.

FIGURE 3

### AMZN Valuation

Amazon.com, Inc. -- Valuation Worksheet  
(\$ in millions, except per share amounts)

|                             |             |
|-----------------------------|-------------|
| Current Price (After Hours) | \$3,331.97  |
| Diluted Shares Outstanding  | 514.0       |
| Current Market Cap          | \$1,712,633 |
| Less Cash and Other Assets  | \$89,894    |
| Add Debt                    | \$50,279    |
| Adjusted Enterprise Value   | \$1,673,018 |

| Current multiples - Total AMZN | 2021E     | 2022E     |
|--------------------------------|-----------|-----------|
| Total Revenues                 | \$473,206 | \$576,000 |
| Current EV/Rev Multiple        | 3.5x      | 2.9x      |
| Total EBITDA                   | \$75,369  | \$90,373  |
| EV/EBITDA multiple             | 22.2x     | 18.5x     |
| FCF per share                  | (\$0.63)  | \$22.10   |
| Current FCF yield              | 0.0%      | 0.7%      |

#### Retail Valuation

|  | 2021E          | 2022E          |
|--|----------------|----------------|
| Retail EBITDA                                | \$38,515       | \$45,334       |
| <b>Target Multiple</b>                       | <b>30.0x</b>   | <b>30.0x</b>   |
| Enterprise Value                             | \$1,155,438    | \$1,360,022    |
| Less Debt                                    | \$50,279       | \$50,279       |
| End Cash (ex AWS cash)                       | \$96,304       | \$107,664      |
| Equity Value                                 | \$1,201,463    | \$1,417,407    |
| End Projected Share Count                    | 511            | 514            |
| <b>Implied Stock Price on Forward EBITDA</b> | <b>\$2,352</b> | <b>\$2,757</b> |

| EV/Revenue                                    | 2021E          | 2022E          |
|---|----------------|----------------|
| Retail Revenue                                | \$412,304      | \$496,042      |
| <b>Target Multiple</b>                        | <b>3.0x</b>    | <b>3.0x</b>    |
| Enterprise Value                              | \$1,236,911    | \$1,488,125    |
| Less Debt                                     | \$50,279       | \$50,279       |
| End Cash (ex AWS cash)                        | \$96,304       | \$107,664      |
| Equity Value                                  | \$1,282,936    | \$1,545,510    |
| End Projected Share Count                     | 511            | 514            |
| <b>Implied Stock Price on Forward Revenue</b> | <b>\$2,512</b> | <b>\$3,006</b> |

|                        |                |                |
|------------------------|----------------|----------------|
| <b>Wtd Avg. Retail</b> | <b>\$2,432</b> | <b>\$2,881</b> |
| <b>Retail Val</b>      | <b>\$2,432</b> | <b>\$2,881</b> |

#### AWS Valuation

|  | 2021E            | 2022E            |
|--|------------------|------------------|
| Revenues                               | \$61,429         | \$79,959         |
| <b>Target Multiple</b>                 | <b>8.0x</b>      | <b>8.0x</b>      |
| Enterprise value                       | \$491,435        | \$639,669        |
| Net cash for AWS                       | \$3,000          | \$3,000          |
| <b>AWS Equity value</b>                | <b>\$494,435</b> | <b>\$642,669</b> |
| End Projected Share Count              | 510.8            | 514.2            |
| <b>Implied AWS valuation on EV/Rev</b> | <b>\$968</b>     | <b>\$1,250</b>   |
| <b>AWS value per share</b>             | <b>\$968</b>     | <b>\$1,250</b>   |

|             |                |                |
|-------------|----------------|----------------|
| <b>SOTP</b> | <b>\$3,400</b> | <b>\$4,130</b> |
|-------------|----------------|----------------|

|                     |                |
|---------------------|----------------|
| <b>Price Target</b> | <b>\$4,130</b> |
|---------------------|----------------|

Source: Barclays Research, Price as of 4/29/21 at 11:41PM ET

## Income Statement

FIGURE 4 Income Statement

| Amazon.com, Inc. -- Quarterly Earnings Analysis<br>(\$ in millions, except per share amounts) | 2018           | 2019           | 2020           | Mar-21<br>1Q21   | Jun-21<br>2Q21  | Sep-21<br>3Q21E | Dec-21<br>4Q21E | 2021E           | 2022E          | 2023E          |
|---|----------------|----------------|----------------|------------------|-----------------|-----------------|-----------------|-----------------|----------------|----------------|
| North America Retail  | 141,366        | 170,773        | 236,282        | 64,366           | 67,550          | 66,380          | 82,522          | 280,818         | 337,415        | 405,859        |
| International Retail  | 65,865         | 74,723         | 104,412        | 30,649           | 30,721          | 29,513          | 40,075          | 130,958         | 158,627        | 197,771        |
| AWS   | 25,656         | 35,026         | 45,370         | 13,503           | 14,809          | 15,846          | 17,272          | 61,429          | 79,959         | 100,977        |
| <b>Net Sales</b>  | <b>232,887</b> | <b>280,522</b> | <b>386,064</b> | <b>108,518</b>   | <b>113,080</b>  | <b>111,739</b>  | <b>139,868</b>  | <b>473,206</b>  | <b>576,000</b> | <b>704,608</b> |
| Cost of Sales   | 139,082        | 165,387        | 233,024        | 62,313           | 64,031          | 64,856          | 86,427          | 277,627         | 329,558        | 392,253        |
| <b>Gross Profit</b>   | <b>93,805</b>  | <b>115,135</b> | <b>153,040</b> | <b>46,205</b>    | <b>49,049</b>   | <b>46,883</b>   | <b>53,441</b>   | <b>195,578</b>  | <b>246,442</b> | <b>312,354</b> |
| Operating Expenses:   |                |                |                |                  |                 |                 |                 |                 |                |                |
| Fulfillment   | 32,907         | 39,050         | 57,159         | 16,188           | 17,072          | 17,693          | 20,772          | 71,726          | 87,902         | 106,857        |
| Marketing   | 13,045         | 17,743         | 20,300         | 5,751            | 6,833           | 6,356           | 7,717           | 26,656          | 34,203         | 43,953         |
| Technology and Content  | 25,949         | 32,207         | 37,677         | 11,260           | 11,984          | 12,401          | 12,549          | 48,194          | 62,765         | 80,299         |
| General and Administrative  | 3,769          | 4,530          | 5,871          | 1,797            | 1,856           | 1,725           | 1,948           | 7,326           | 8,894          | 10,880         |
| Stock-Based Compensation  | 5,418          | 6,864          | 9,208          | 2,306            | 3,591           | 2,793           | 3,022           | 11,712          | 14,961         | 19,146         |
| Amortization of Other Intangibles   | 0              | 0              | 0              | 0                | 0               | 0               | 0               | 0               | 0              | 0              |
| Restructuring Related and Other   | 297            | 201            | (74)           | 38               | 11              | 0               | 0               | 49              | 0              | 0              |
| Total Operating Expenses  | 81,385         | 100,595        | 130,141        | 37,340           | 41,347          | 40,968          | 46,008          | 165,664         | 208,725        | 261,134        |
| Reported Income from Operations   | 12,420         | 14,540         | 22,899         | 8,865            | 7,702           | 5,915           | 7,433           | 29,915          | 37,717         | 51,220         |
| Depreciation and Amortization   | 15,341         | 21,789         | 25,251         | 7,508            | 8,038           | 8,727           | 9,421           | 33,694          | 37,695         | 42,962         |
| Total Adjusted Operating Expenses   | 81,088         | 100,394        | 130,215        | 34,996           | 37,745          | 38,175          | 42,986          | 165,615         | 208,725        | 261,134        |
| Pro Forma Income from Operations  | 18,135         | 21,605         | 32,033         | 11,209           | 11,304          | 8,708           | 10,455          | 41,676          | 52,677         | 70,366         |
| <b>Adjusted EBITDA</b>  | <b>33,476</b>  | <b>43,394</b>  | <b>57,284</b>  | <b>18,717</b>    | <b>19,342</b>   | <b>17,435</b>   | <b>19,876</b>   | <b>75,369</b>   | <b>90,373</b>  | <b>113,328</b> |
| Interest Income   | 441            | 833            | 555            | 105              | 106             | 486             | 484             | 1,180           | 2,140          | 2,302          |
| Interest Expense  | (1,418)        | (1,600)        | (1,647)        | (399)            | (435)           | (68)            | (68)            | (970)           | (273)          | (273)          |
| Other   | (182)          | 202            | 2,371          | 1,697            | 1,261           | 0               | 0               | 2,958           | 0              | 0              |
| Income Before Equity in Losses of Equity-Method Investees                                     | 11,261         | 13,975         | 24,178         | 10,268           | 8,634           | 6,332           | 7,848           | 33,083          | 39,584         | 53,249         |
| Equity in Losses of Equity-Method Investees   | (8)            | 14             | (16)           | 5                | (12)            | 0               | 0               | (7)             | 0              | 0              |
| Provision (Benefit) for Income Taxes  | 1,196          | 2,373          | 2,863          | 2,156            | 868             | 637             | 789             | 4,450           | 3,979          | 5,353          |
| Income Before Effect of Change in Accounting  | 10,073         | 11,588         | 21,331         | 8,107            | 7,778           | 5,696           | 7,059           | 28,640          | 35,604         | 47,895         |
| Cumulative Effect of Change in Accounting Principle   | 0              | 0              | 0              | 0                | 0               | 0               | 0               | 0               | 0              | 0              |
| GAAP Net Income   | 10,073         | 11,588         | 21,331         | 8,107            | 7,778           | 5,696           | 7,059           | 28,640          | 35,604         | 47,895         |
| Nonrecurring and Extraordinary Items  | 297            | 201            | (74)           | 38               | 11              | 0               | 0               | 49              | 0              | 0              |
| Pro Forma Pretax Income   | 16,976         | 21,040         | 33,312         | 12,612           | 12,236          | 9,126           | 10,870          | 44,844          | 54,545         | 72,394         |
| GAAP Income Tax Provision   | 1,196          | 2,373          | 2,863          | 2,156            | 868             | 637             | 789             | 4,450           | 3,979          | 5,353          |
| Tax Adjustment of Pro Forma Items   | 0              | 0              | 0              | 0                | 0               | 0               | 0               | 0               | 0              | 0              |
| <b>Pro Forma Net Income</b>   | <b>11,883</b>  | <b>14,728</b>  | <b>23,318</b>  | <b>8,828</b>     | <b>8,565</b>    | <b>6,388</b>    | <b>7,609</b>    | <b>31,391</b>   | <b>38,181</b>  | <b>50,676</b>  |
| <u>Diluted Earnings per Share</u>   |                |                |                |                  |                 |                 |                 |                 |                |                |
| Reported Earnings per Share   | \$20.15        | \$23.01        | \$41.83        | \$15.80          | \$15.13         | \$11.23         | \$13.87         | \$56.07         | \$69.25        | \$91.68        |
| <b>Pro Forma Earnings per Share</b>   | <b>\$23.77</b> | <b>\$29.25</b> | <b>\$45.72</b> | <b>\$17.21</b>   | <b>\$16.66</b>  | <b>\$12.60</b>  | <b>\$14.95</b>  | <b>\$61.46</b>  | <b>\$74.26</b> | <b>\$97.00</b> |
| Basic Shares Outstanding  | 487.0          | 493.8          | 500.3          | 498.0            | 500.0           | 507.0           | 509.0           | 503.5           | 514.2          | 522.4          |
| Diluted Shares Outstanding  | 500.0          | 503.5          | 510.0          | 513.0            | 514.0           | 507.0           | 509.0           | 510.8           | 514.2          | 522.4          |
| <u>Other Metrics</u>  |                |                |                |                  |                 |                 |                 |                 |                |                |
| Free Cash Flow  | 18577.0        | 24513.0        | 27290.0        | (7869.0)         | (1573.0)        | (646.0)         | 9768.7          | (319.3)         | 11360.7        | 10867.1        |
| <b>Free Cash Flow per Share</b>   | <b>\$37.15</b> | <b>\$48.69</b> | <b>\$53.51</b> | <b>(\$15.34)</b> | <b>(\$3.06)</b> | <b>(\$1.27)</b> | <b>\$19.19</b>  | <b>(\$0.63)</b> | <b>\$22.10</b> | <b>\$20.80</b> |
| <u>Margin Analysis</u>  |                |                |                |                  |                 |                 |                 |                 |                |                |
| Gross Margin  | 40.3%          | 41.0%          | 39.6%          | 42.6%            | 43.4%           | 42.0%           | 38.2%           | 41.3%           | 42.8%          | 44.3%          |
| Fulfillment as % of Gross Profit  | 35.1%          | 33.9%          | 37.3%          | 35.0%            | 34.8%           | 37.7%           | 38.9%           | 36.7%           | 35.7%          | 34.2%          |
| Sales and Marketing as % of Gross Profit  | 13.9%          | 15.4%          | 13.3%          | 12.4%            | 13.9%           | 13.6%           | 14.4%           | 13.6%           | 13.9%          | 14.1%          |
| Technology and Content as % of Gross Profit   | 27.7%          | 28.0%          | 24.6%          | 24.4%            | 24.4%           | 26.5%           | 23.5%           | 24.6%           | 25.5%          | 25.7%          |
| General and Administrative as % of Gross Profit   | 4.0%           | 3.9%           | 3.8%           | 3.9%             | 3.8%            | 3.7%            | 3.6%            | 3.7%            | 3.6%           | 3.5%           |
| GAAP Operating to Gross Profit Margin   | 13.2%          | 12.6%          | 15.0%          | 19.2%            | 15.7%           | 12.6%           | 13.9%           | 15.3%           | 15.3%          | 16.4%          |
| Pro Forma Operating Income to Gross Profit  | 19.3%          | 18.8%          | 20.9%          | 24.3%            | 23.0%           | 18.6%           | 19.6%           | 21.3%           | 21.4%          | 22.5%          |
| Adjusted EBITDA to Gross Profit   | 35.7%          | 37.7%          | 37.4%          | 40.5%            | 39.4%           | 37.2%           | 37.2%           | 38.5%           | 36.7%          | 36.3%          |
| Pro Forma Operating Income to Revenue   | 7.8%           | 7.7%           | 8.3%           | 10.3%            | 10.0%           | 7.8%            | 7.5%            | 8.8%            | 9.1%           | 10.0%          |
| Adjusted EBITDA to Revenue  | 14.4%          | 15.5%          | 14.8%          | 17.2%            | 17.1%           | 15.6%           | 14.2%           | 15.9%           | 15.7%          | 16.1%          |
| Effective Tax Rate  | 10.6%          | 17.0%          | 11.8%          | 21.0%            | 10.1%           | 10.1%           | 10.1%           | 13.5%           | 10.1%          | 10.1%          |
| Pro Forma Net Income  | 5.1%           | 5.3%           | 6.0%           | 8.1%             | 7.6%            | 5.7%            | 5.4%            | 6.6%            | 6.6%           | 7.2%           |
| <u>Year Over Year Growth</u>  |                |                |                |                  |                 |                 |                 |                 |                |                |
| North America Retail Revenue  | 33.2%          | 20.8%          | 38.4%          | 39.5%            | 21.9%           | 11.8%           | 9.5%            | 18.8%           | 20.2%          | 20.3%          |
| International Retail Revenue  | 21.3%          | 13.4%          | 39.7%          | 60.4%            | 35.5%           | 17.3%           | 7.0%            | 25.4%           | 21.1%          | 24.7%          |
| AWS Revenues  | 47.0%          | 36.5%          | 29.5%          | 32.1%            | 37.0%           | 36.6%           | 35.5%           | 35.4%           | 30.2%          | 26.3%          |
| Net Revenue   | 30.9%          | 20.5%          | 37.6%          | 43.8%            | 27.2%           | 16.2%           | 11.4%           | 22.6%           | 21.7%          | 22.3%          |
| <b>Gross Profit</b>   | <b>42.2%</b>   | <b>22.7%</b>   | <b>32.9%</b>   | <b>47.9%</b>     | <b>35.0%</b>    | <b>19.9%</b>    | <b>15.3%</b>    | <b>27.8%</b>    | <b>26.0%</b>   | <b>26.7%</b>   |
| Pro Forma Operating Income  | 112.5%         | 19.1%          | 48.3%          | 92.7%            | 29.4%           | 1.9%            | 17.0%           | 30.1%           | 26.4%          | 33.6%          |
| <b>Adjusted EBITDA</b>  | <b>67.3%</b>   | <b>29.6%</b>   | <b>32.0%</b>   | <b>67.4%</b>     | <b>33.6%</b>    | <b>15.7%</b>    | <b>20.0%</b>    | <b>31.6%</b>    | <b>19.9%</b>   | <b>25.4%</b>   |
| Pro Forma Net Income  | 106.1%         | 23.9%          | 58.3%          | 142.1%           | 34.3%           | -0.4%           | 10.6%           | 34.6%           | 21.6%          | 32.7%          |
| Pro Forma Diluted Earnings per Share  | 103.2%         | 23.1%          | 56.3%          | 138.8%           | 33.0%           | 0.6%            | 11.4%           | 34.4%           | 20.8%          | 30.6%          |
| Free Cash Flow  | 121.8%         | 32.0%          | 11.3%          | 232.9%           | -112.0%         | -171.7%         | -37.4%          | -101.2%         | -3658.1%       | -4.3%          |

Source: Barclays Research, Company Reports

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**Amazon.com, Inc.** (AMZN, 29-Jul-2021, USD 3599.92), Overweight/Positive, CD/CE/J/K/M/N

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Our coverage analysts use a relative rating system in which they rate stocks as Overweight, Equal Weight or Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry (the "industry coverage universe").

In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

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**Overweight** - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Equal Weight** - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Underweight** - The stock is expected to underperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

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### Industry View

**Positive** - industry coverage universe fundamentals/valuations are improving.

**Neutral** - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

**Negative** - industry coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "industry coverage universe":

### U.S. Internet

|                       |                                  |                              |
|-----------------------|----------------------------------|------------------------------|
| 1stDibs Inc. (DIBS)   | Activision Blizzard, Inc. (ATVI) | Airbnb Inc. (ABNB)           |
| Alphabet Inc. (GOOGL) | Amazon.com, Inc. (AMZN)          | Booking Holdings Inc. (BKNG) |
| Chewy, Inc. (CHWY)    | Compass Inc. (COMP)              | Corsair Gaming, Inc. (CRSR)  |
| DoorDash, Inc. (DASH) | eBay, Inc. (EBAY)                | Electronic Arts, Inc. (EA)   |



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|                             |                                      |                               |
|-----------------------------|--------------------------------------|-------------------------------|
| Expedia Inc. (EXPE)         | Facebook, Inc. (FB)                  | GoDaddy Inc. (GDDY)           |
| GoodRx Holdings Inc. (GDRX) | Groupon, Inc. (GRPN)                 | IAC/InterActiveCorp (IAC)     |
| LegalZoom.com, Inc. (LZ)    | Lyft, Inc. (LYFT)                    | Match Group, Inc. (MTCH)      |
| MercadoLibre (MELI)         | Peloton Interactive, Inc. (PTON)     | Pinterest, Inc. (PINS)        |
| Poshmark Inc. (POSH)        | Revolve (RVLV)                       | Shopify (SHOP)                |
| Snap, Inc (SNAP)            | Spotify Technology S.A. (SPOT)       | Squarespace, Inc. (SQSP)      |
| Stitch Fix (SFIX)           | Take-Two Interactive Software (TTWO) | ThredUp Inc. (TDUP)           |
| Tripadvisor Inc. (TRIP)     | Twitter, Inc. (TWTR)                 | Uber Technologies Inc. (UBER) |
| Unity Software Inc. (U)     | Wix.com Ltd. (WIX)                   | Yelp, Inc. (YELP)             |
| Zillow, Inc. (ZG)           | ZipRecruiter, Inc (ZIP)              | Zynga Inc. (ZNGA)             |

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## IMPORTANT DISCLOSURES

## Amazon.com, Inc. (AMZN / AMZN)

USD 3599.92 (29-Jul-2021)

Stock Rating

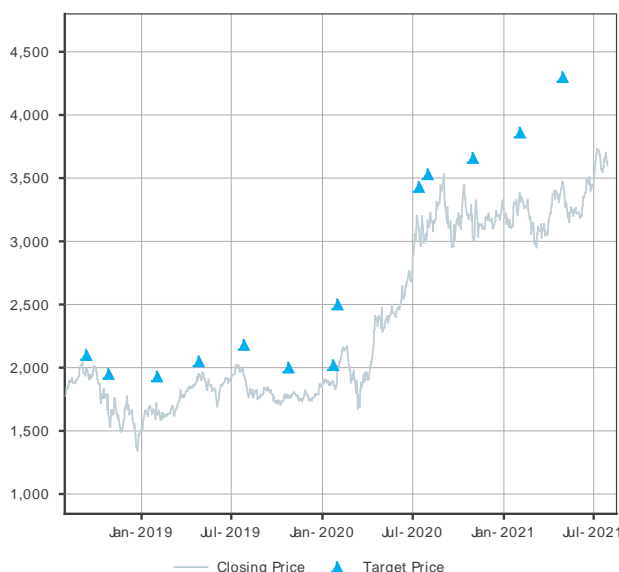
OVERWEIGHT

Industry View

POSITIVE

## Rating and Price Target Chart - USD (as of 29-Jul-2021)

Currency=USD



| Publication Date | Closing Price | Rating | Adjusted Price Target |
|------------------|---------------|--------|-----------------------|
| 29-Apr-2021      | 3471.31       |        | 4300.00               |
| 02-Feb-2021      | 3380.00       |        | 3860.00               |
| 30-Oct-2020      | 3036.15       |        | 3660.00               |
| 31-Jul-2020      | 3164.68       |        | 3530.00               |
| 13-Jul-2020      | 3104.00       |        | 3430.00               |
| 31-Jan-2020      | 2008.72       |        | 2500.00               |
| 22-Jan-2020      | 1887.46       |        | 2020.00               |
| 24-Oct-2019      | 1780.78       |        | 2000.00               |
| 26-Jul-2019      | 1943.05       |        | 2180.00               |
| 26-Apr-2019      | 1950.63       |        | 2050.00               |
| 01-Feb-2019      | 1626.23       |        | 1930.00               |
| 26-Oct-2018      | 1642.81       |        | 1950.00               |
| 11-Sep-2018      | 1987.15       |        | 2100.00               |

On 29-Jul-2018, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 1870.00.

Source: Bloomberg, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

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**Valuation Methodology:** We value shares of AMZN using a sum-of-the-parts methodology for its retail and AWS businesses. Our valuation of AMZN's retail business is based on an average of 30x EBITDA and 3x revenue using our FY22 estimates; while we value AWS using 8x our FY22 revenue estimates. Our resulting price target is \$4,130.

**Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target:** Downside risks in the short term that could negatively impact our model and consensus estimates include: 1) greater-than-expected investment levels in retail, and hence lower than expected CSOI margins, over a more drawn-out period; 2) AWS missing consensus estimates from increased competition or simply because the Street over-estimated the pace at which on-premise workloads shift to the cloud. We'd put a 40% probability on either of these two risks playing out in 2017 (recall that both played out in 4Q16 and it didn't seem to matter for shares, which are up almost 4.5% from the day after the print (vs S&P up 2%)).

Longer-term risks include the highly competitive ecommerce landscape, increasing shipping costs from same and next-day delivery, which could be a drag on margins, security breaches or frequent downtime in the AWS business which could slow down public cloud adoption, or execution missteps that could slow growth of the retail business.

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#### U.S. Internet (Cont'd)

---

John Hall

+1 212 526 7156

john.hall2@barclays.com

BCI, US

Alex Hughes

+1 212 526 3069

alexander.hughes@barclays.com

BCI, US