

## Amazon.com, Inc. (AMZN)

**Mixed Q1; Investors Should Focus on Strong Demand Growth in Prime, FBA, and AWS**

**INVESTMENT HIGHLIGHTS:** Amazon reported mixed 2Q17 results with revenue above and operating income below expectations. While the miss on operating income is disappointing, we believe this creates a buying opportunity. We believe the company's underlying fundamentals remained intact with continued strong demand for Prime, FBA, and AWS. Both 1P and 3P revenue, as well as total paid units accelerated during the quarter, driven by continued momentum in Prime membership as retail subscription revenue accelerated. We believe FBA program continued to gain traction both domestically and internationally. AWS continued to grow over 40% y/y. We believe the company's ongoing heavy investments in fulfillment capacity, video content, and AWS are to match with its substantial growth rates, and should not be viewed negatively.

- Amazon reported 2Q17 revenue of \$38.0B, representing 25% y/y growth or 26% y/y ex-FX, above consensus of \$37.2B. N. America revenue was \$22.4B, above consensus of \$21.7B, representing growth of 27% y/y ex-FX, an acceleration from 23% ex-FX in 1Q17. International revenue was \$11.5B, up 22% y/y ex-FX, in-line with consensus. AWS continued to ramp with revenue growing 42% y/y to \$4.1B in Q2, also in-line with consensus. Overall, we estimate Q2 GMV to be \$79.7B, increasing 30% y/y. GAAP operating income was \$628M in 2Q17, below consensus of \$1.1B, primarily driven by step-up in investments in fulfillment, video content, and AWS infrastructure, as well as increased sales force related to AWS and Advertising.
- In terms of revenue mix, retail subscription revenue totaled \$2.2B, up 53% y/y ex-FX, indicating continued growth momentum in Prime membership. According to latest estimate from Consumer Intelligence Research Partners (CIRP), U.S. Prime members reached 85M in 2Q17 and 28% of U.S. Prime members are monthly subscribers. We estimate global Prime members to be over 100M, taking into account monthly subscribers and lower international pricing.
- In Q2, third-party (3P) retail revenue continued to outpace growth of first-party (1P) revenue, up 40% y/y ex-FX, compared to 18% y/y ex-FX for 1P. Both 1P and 3P revenue accelerated q/q with particular strength in U.S. 3P units grew 32% y/y and 3P units now represents 51% of total paid units, up from 49% in 2Q16. We believe FBA program continued to gain traction both domestically and internationally. Management mentioned that Amazon fulfilled units increased nearly 40% y/y while fulfillment center square footage increased by 30% y/y. We believe company should continue increasing its fulfillment capacity to match with its FBA demand and expect ongoing heavy investment in Q3 ahead of the holiday season.

**ESTIMATE CHANGE**

Stock Rating	<b>BUY</b>
	Unchanged
Price Target	<b>\$1,150.00</b>

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**Stock Price Performance**

Amazon.com, Inc. 07/28/17

**Market Data**

Price (07/27/2017)	\$1,046.00
52-Week Range	\$1,083.31 - \$710.10
Shares Outstanding	477.98
Market Cap (MM)	\$499,962.4
Avg. Daily Volume	3,756,136.0
Total Debt/Cap.	51.42%

	FY 12/31/2016	FY 12/31/2017		FY 12/31/2018	
	Actual	Old	New	Old	New
Rev. (MM)	135,987.0A	167,439.6E	168,851.5E	203,860.3E	206,857.9E
Growth	27.1%	23.1%	24.2%	21.8%	22.5%
EPS: 1Q	1.07A	1.48A	1.48A	2.32E	1.68E
EPS: 2Q	1.77A	1.35E	0.40A	3.11E	2.01E
EPS: 3Q	0.53A	1.59E	(0.11)E	2.71E	1.66E
EPS: 4Q	<u>1.54A</u>	<u>2.95E</u>	<u>2.08E</u>	<u>4.64E</u>	<u>4.09E</u>
EPS: Year	4.92A	7.37E	3.85E	12.78E	9.45E
Growth	293.6%	49.8%	(21.7)%	73.4%	145.5%

- GAAP operating income margin was 1.7% for 2Q17, decreasing 250 bps y/y from 4.2% in 2Q16. Apart from continued investments in fulfillment capacity, video content, and AWS, the lower margin this quarter was also driven by a step-up in headcount which grew 42% y/y and 51% y/y growth stock compensation. Growth in hiring for AWS and Advertising exceeded overall company growth, in areas including software engineers and sales. Management expects seasonally low operating income for Q3, as the company brings ~80% of this year's fulfillment square footage online, and as it steps up its video spend both y/y and q/q.
- AWS continued to exhibit strong growth in 2Q17, increasing 42% y/y to reach revenue of \$4.1B, despite relatively recent price reductions. Operating margin for AWS was 22.3%, down q/q from 24.3% due to new price cuts during the quarter. AWS margin was also impacted by 71% increase in capital leases as it stepped up its infrastructure investment to match large usage growth and geo expansion. The company also increased its marketing expense due to sales hiring. In the long run, however, we believe AWS margin should continue to trend upwards given increasing utilization and operational efficiency.
- Amazon guided 3Q17 revenue of \$39.25-41.75B, which represents growth of 20-28% y/y, with the midpoint above consensus of \$40.0B. GAAP operating income guidance for 3Q17 was (\$400)-300M, below consensus of \$931M. We believe guidance could prove conservative given strong Prime, 3P, and AWS growth, as well as strong performance of Amazon Prime Day in July.

**Figure 1 Actual versus estimated 2Q17 results**

2Q17A					
	Guidance	Actual	Needham Estimates	Beat / (Miss)	Consensus
<b>Total Revenue</b>	<b>\$35.25-37.75B</b>	<b>\$37,955</b>	<b>\$37,404</b>	<b>2%</b>	<b>\$37,203</b>
Y/Y Growth		25%	23%		22%
<b>Gross Profit</b>		<b>\$14,516</b>	<b>\$14,513</b>	<b>3%</b>	<b>\$14,162</b>
Gross Margin		38%	39%		38%
<b>Unit Growth</b>		<b>27%</b>	<b>21%</b>	<b>4 pts</b>	<b>23%</b>
<b>GAAP Operating Income</b>	<b>\$425-1,075M</b>	<b>\$628</b>	<b>\$1,078</b>	<b>-42%</b>	<b>\$1,074</b>
Non-GAAP Operating Income		\$1,852	\$2,169	-13%	\$2,119
<b>GAAP EPS</b>		<b>\$0.40</b>	<b>\$1.35</b>	<b>-72%</b>	<b>\$1.41</b>

Source: Company reports, FactSet Consensus, Needham &amp; Company, LLC

**Figure 2 Estimate Revisions**

3Q17E					2017E			2018E		
	Guidance	New Needham	Old Needham	Old Consensus	New Needham	Old Needham	Old Consensus	New Needham	Old Needham	Old Consensus
<b>Total Revenue</b>	<b>\$39.25-41.75B</b>	<b>\$40,775</b>	<b>\$40,352</b>	<b>\$39,975</b>	<b>\$168,851</b>	<b>\$167,440</b>	<b>\$166,528</b>	<b>\$206,858</b>	<b>\$203,860</b>	<b>\$202,795</b>
Y/Y Growth		25%	23%	22%	24%	23%	22%	23%	22%	20%
<b>Gross Profit</b>		<b>\$14,924</b>	<b>\$14,930</b>	<b>\$14,631</b>	<b>\$61,982</b>	<b>\$62,019</b>	<b>\$60,821</b>	<b>\$77,835</b>	<b>\$76,496</b>	<b>\$76,399</b>
Gross Margin		37%	37%	37%	37%	37%	37%	38%	38%	38%
<b>Unit Growth</b>		<b>23%</b>	<b>21%</b>	<b>23%</b>	<b>24%</b>	<b>22%</b>	<b>23%</b>	<b>22%</b>	<b>20%</b>	<b>22%</b>
<b>GAAP Operating Income</b>	<b>(\$400)-300M</b>	<b>(\$50)</b>	<b>\$1,284</b>	<b>\$931</b>	<b>\$3,183</b>	<b>\$5,700</b>	<b>\$5,031</b>	<b>\$7,391</b>	<b>\$10,213</b>	<b>\$8,428</b>
Non-GAAP Operating Income		\$1,240	\$2,266	\$1,866	\$8,013	\$9,463	\$8,884	\$13,768	\$14,759	\$13,394
<b>GAAP EPS</b>		<b>(\$0.11)</b>	<b>\$1.59</b>	<b>\$1.11</b>	<b>\$3.85</b>	<b>\$7.37</b>	<b>\$6.67</b>	<b>\$9.45</b>	<b>\$12.78</b>	<b>\$11.38</b>

Source: Company reports, FactSet Consensus, Needham &amp; Company, LLC

**Figure 3 Projected Quarterly Income Statement****Amazon.com Quarterly Income Statement**

(in millions, except per share data and ratios)

	2016A				2017E				2018E			
	Mar-16 Q1:16A	Jun-16 Q2:16A	Sep-16 Q3:16A	Dec-16 Q4:16A	Mar-17 Q1:17A	Jun-17 Q2:17A	Sep-17 Q3:17E	Dec-17 Q4:17E	Mar-18 Q1:18E	Jun-18 Q2:18E	Sep-18 Q3:18E	Dec-18 Q4:18E
<b>Total Revenue</b>	<b>29,128</b>	<b>30,404</b>	<b>32,714</b>	<b>43,741</b>	<b>35,714</b>	<b>37,955</b>	<b>40,775</b>	<b>54,407</b>	<b>44,407</b>	<b>46,787</b>	<b>49,807</b>	<b>65,857</b>
<b>Cost of Revenue</b>	<b>18,866</b>	<b>19,180</b>	<b>21,253</b>	<b>28,949</b>	<b>22,432</b>	<b>23,439</b>	<b>25,852</b>	<b>35,147</b>	<b>27,754</b>	<b>28,400</b>	<b>31,050</b>	<b>41,819</b>
<b>Gross Profit (Loss)</b>	<b>10,262</b>	<b>11,224</b>	<b>11,461</b>	<b>14,792</b>	<b>13,282</b>	<b>14,516</b>	<b>14,924</b>	<b>19,260</b>	<b>16,652</b>	<b>18,387</b>	<b>18,757</b>	<b>24,038</b>
Gross Margin	35.2%	36.9%	35.0%	33.8%	37.2%	38.2%	36.6%	35.4%	37.5%	39.3%	37.7%	36.5%
<b>Operating Expenses:</b>												
Fulfillment	3,571	3,692	4,170	5,529	4,534	4,897	5,448	7,073	5,595	5,942	6,226	8,127
Marketing	1,380	1,466	1,653	2,411	1,826	2,096	2,243	2,884	2,220	2,480	2,490	3,227
Technology and content	3,209	3,461	3,701	4,052	4,372	4,916	5,219	5,461	5,373	5,989	6,226	6,586
General and administrative	442	497	554	624	709	755	775	762	844	842	847	1,054
Stock-based compensation	544	768	769	887	792	1,158	1,223	1,415	1,243	1,497	1,594	1,778
Other operating expense, net	45	55	32	34	44	66	66	66	66	66	66	66
<b>Total Operating Expenses</b>	<b>9,191</b>	<b>9,939</b>	<b>10,879</b>	<b>13,537</b>	<b>12,277</b>	<b>13,888</b>	<b>14,973</b>	<b>17,660</b>	<b>15,342</b>	<b>16,816</b>	<b>17,449</b>	<b>20,837</b>
<b>Operating Income (GAAP)</b>	<b>1,071</b>	<b>1,285</b>	<b>582</b>	<b>1,255</b>	<b>1,005</b>	<b>628</b>	<b>(50)</b>	<b>1,600</b>	<b>1,311</b>	<b>1,572</b>	<b>1,309</b>	<b>3,201</b>
<b>Consolidated Segment Operating Income (CSOI)</b>	<b>1,660</b>	<b>2,108</b>	<b>1,390</b>	<b>2,176</b>	<b>1,841</b>	<b>1,852</b>	<b>1,240</b>	<b>3,081</b>	<b>2,620</b>	<b>3,135</b>	<b>2,968</b>	<b>5,045</b>
CSOI Margin	5.7%	6.9%	4.2%	5.0%	5.2%	4.9%	3.0%	5.7%	5.9%	6.7%	6.0%	7.7%
Interest income	21	24	26	30	39	44	30	23	51	44	36	29
Interest expense	(117)	(116)	(118)	(133)	(139)	(143)	(169)	(173)	(213)	(213)	(213)	(229)
Other income (expense), net	81	(14)	8	14	48	137	137	137	137	137	137	137
<b>Total Non-operating income (expense)</b>	<b>(15)</b>	<b>(106)</b>	<b>(84)</b>	<b>(89)</b>	<b>(52)</b>	<b>38</b>	<b>(2)</b>	<b>(13)</b>	<b>(25)</b>	<b>(32)</b>	<b>(40)</b>	<b>(63)</b>
<b>Income before provision for income taxes</b>	<b>1,056.0</b>	<b>1,179.0</b>	<b>498.0</b>	<b>1,166.0</b>	<b>953.0</b>	<b>666.0</b>	<b>(51.5)</b>	<b>1,587.3</b>	<b>1,285.4</b>	<b>1,539.7</b>	<b>1,268.8</b>	<b>3,137.6</b>
Income tax expense (benefit)	475.0	307.0	229.0	414.0	229.0	467.0	0.0	556.6	449.9	538.9	444.1	1,098.2
Equity-method investment activity, net of tax	(68.0)	(15.0)	(10.0)	(3.0)	0.0	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
<b>Reported GAAP Net Income</b>	<b>513.0</b>	<b>857.0</b>	<b>259.0</b>	<b>749.0</b>	<b>724.0</b>	<b>197.0</b>	<b>(53.5)</b>	<b>1,029.8</b>	<b>833.5</b>	<b>998.8</b>	<b>822.7</b>	<b>2,037.5</b>
<b>Pro Forma Net Income</b>	<b>904.0</b>	<b>1,480.7</b>	<b>705.4</b>	<b>1,346.0</b>	<b>1,359.1</b>	<b>564.7</b>	<b>1,237.8</b>	<b>1,994.1</b>	<b>1,686.6</b>	<b>2,016.9</b>	<b>1,903.6</b>	<b>3,238.2</b>
<b>Reported GAAP EPS</b>	<b>\$1.07</b>	<b>\$1.77</b>	<b>\$0.53</b>	<b>\$1.54</b>	<b>\$1.48</b>	<b>\$0.40</b>	<b>(\$0.11)</b>	<b>\$2.08</b>	<b>\$1.68</b>	<b>\$2.01</b>	<b>\$1.66</b>	<b>\$4.09</b>
<b>Pro Forma EPS</b>	<b>\$1.88</b>	<b>\$3.07</b>	<b>\$1.45</b>	<b>\$2.77</b>	<b>\$2.77</b>	<b>\$1.15</b>	<b>\$2.51</b>	<b>\$4.04</b>	<b>\$3.41</b>	<b>\$4.07</b>	<b>\$3.83</b>	<b>\$6.50</b>
Basic shares outstanding	471.0	473.0	474.0	476.0	477.0	479.0	480.0	481.0	482.0	483.0	484.0	485.0
Diluted shares outstanding	481.0	483.0	485.0	486.0	490.0	492.0	493.0	494.0	495.0	496.0	497.0	498.0
<b>EBITDA</b>												
Depreciation and Amortization	1,827	1,909	2,084	2,297	2,435.0	2,633.0	2,781.2	2,771.4	2,934.0	2,884.4	2,900.3	2,927.2
Adjusted EBITDA	2,898.0	3,194.0	2,666.0	3,552.0	3,440.0	3,261.0	2,731.5	4,371.4	4,244.6	4,455.9	4,208.9	6,127.7
Adjusted EBITDA Margin	9.9%	10.5%	8.1%	8.1%	9.6%	8.6%	6.7%	8.0%	9.6%	9.5%	8.5%	9.3%
<b>MARGIN ANALYSIS</b>												
Gross margin	35.2%	36.9%	35.0%	33.8%	37.2%	38.2%	36.6%	35.4%	37.5%	39.3%	37.7%	36.5%
Fulfillment	12.3%	12.1%	12.7%	12.6%	12.7%	12.9%	13.4%	13.0%	12.6%	12.7%	12.5%	12.3%
Marketing	4.7%	4.8%	5.1%	5.5%	5.1%	5.5%	5.5%	5.3%	5.0%	5.3%	5.0%	4.9%
Technology and content	11.0%	11.4%	11.3%	9.3%	12.2%	13.0%	12.8%	10.0%	12.1%	12.8%	12.5%	10.0%
General and administrative	1.5%	1.6%	1.7%	1.4%	2.0%	2.0%	1.9%	1.4%	1.9%	1.8%	1.7%	1.6%
Operating margin	3.7%	4.2%	1.8%	2.9%	2.8%	1.7%	-0.1%	2.9%	3.0%	3.4%	2.6%	4.9%
Tax rate	45.0%	26.0%	46.0%	35.5%	24.0%	70.1%	0.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Pro forma net margin	3.1%	4.9%	2.2%	3.1%	3.8%	1.5%	3.0%	3.7%	3.8%	4.3%	3.8%	4.9%
<b>YEAR OVER YEAR GROWTH</b>												
Revenues	28.2%	31.1%	29.0%	22.4%	22.6%	24.8%	24.6%	24.4%	24.3%	23.3%	22.1%	21.0%
Gross profit	40.2%	39.9%	33.2%	29.7%	29.4%	29.3%	30.2%	30.2%	25.4%	26.7%	25.7%	24.8%
Fulfillment	33.8%	34.5%	34.2%	25.4%	27.0%	32.6%	30.6%	27.9%	23.4%	21.3%	14.3%	14.9%
Marketing	31.7%	33.3%	35.9%	42.0%	32.3%	43.0%	35.7%	19.6%	21.6%	18.3%	11.0%	11.9%
Technology and content	27.3%	28.1%	28.2%	26.3%	36.2%	42.0%	41.0%	34.8%	22.9%	21.8%	19.3%	20.6%
General and administrative	16.9%	22.7%	39.2%	82.5%	60.4%	51.9%	39.8%	22.1%	19.0%	11.5%	9.3%	38.3%
Operating income	320.0%	176.9%	43.3%	13.3%	-6.2%	-51.1%	-108.5%	27.5%	30.4%	150.2%	-273.7%	100.0%
Pro forma net income	-180.4%	473.8%	142.9%	64.8%	50.4%	-61.9%	75.5%	48.2%	24.1%	257.1%	53.8%	62.4%
<b>QUARTER OVER QUARTER GROWTH</b>												
Revenues	-18.5%	4.4%	7.6%	33.7%	-18.4%	6.3%	7.4%	33.4%	-18.4%	5.4%	6.5%	32.2%
Gross profit	-10.0%	9.4%	2.1%	29.1%	-10.2%	9.3%	2.8%	29.1%	-13.5%	10.4%	2.0%	28.2%
Fulfillment	-19.0%	3.4%	12.9%	32.6%	-18.0%	8.0%	11.2%	29.8%	-20.9%	6.2%	4.8%	30.5%
Marketing	-18.7%	6.2%	12.8%	45.9%	-24.3%	14.8%	7.0%	28.6%	-23.0%	11.7%	0.4%	29.6%
Technology and content	0.1%	7.9%	6.9%	9.5%	7.9%	12.4%	6.2%	4.6%	-1.6%	11.5%	4.0%	5.8%
General and administrative	29.2%	12.4%	11.5%	12.6%	13.6%	6.5%	2.6%	-1.7%	10.8%	-0.2%	0.5%	24.4%
Operating income	-3.3%	20.0%	-54.7%	115.6%	-19.9%	-37.5%	-107.9%	-3319.9%	-18.1%	19.9%	-16.7%	144.6%
Pro forma net income	10.7%	63.8%	-52.4%	90.8%	1.0%	-58.4%	119.2%	61.1%	-15.4%	19.6%	-5.6%	70.1%

Source: Company reports, Needham &amp; Company, LLC

**Figure 4 Projected Annual Income Statement****Amazon.com Annual Income Statement**

(in millions, except per share data and ratios)

	2015A	2016A	2017E	2018E
<b>Total Revenue</b>	<b>107,007.0</b>	<b>135,987.0</b>	<b>168,851.5</b>	<b>206,857.9</b>
<b>Cost of Revenue</b>	<b>71,651.0</b>	<b>88,248.0</b>	<b>106,869.6</b>	<b>129,022.9</b>
<b>Gross Profit (Loss)</b>	<b>35,356.0</b>	<b>47,739.0</b>	<b>61,981.9</b>	<b>77,835.0</b>
<b>Operating Expenses:</b>				
Fulfillment	12,930.0	16,962.0	21,951.5	25,889.8
Marketing	5,062.0	6,910.0	9,048.2	10,417.4
Technology and content	11,317.0	14,423.0	19,968.6	24,173.5
General and administrative	1,523.0	2,117.0	3,000.4	3,586.3
Stock-based compensation	2,120.0	2,968.0	4,587.8	6,112.5
Amortization of other intangibles	171.0	166.0	242.0	264.0
Restructuring-related and other	-	-	-	-
<b>Total Operating Expenses</b>	<b>33,123.0</b>	<b>43,546.0</b>	<b>58,798.6</b>	<b>70,443.7</b>
<b>Operating Income (GAAP)</b>	<b>2,233.0</b>	<b>4,193.0</b>	<b>3,183.3</b>	<b>7,391.3</b>
<b>Consolidated Segment Operating Income (CSOI)</b>	<b>4,524.0</b>	<b>7,327.0</b>	<b>8,013.1</b>	<b>13,767.9</b>
Interest income	49.0	101.0	136.4	159.5
Interest expense	(460.0)	(484.0)	(623.8)	(867.3)
Other income (expense), net	(254.0)	89.0	459.0	548.0
Remeasurements and Other	-	-	-	-
<b>Total Non-operating income (expense)</b>	<b>(665.0)</b>	<b>(294.0)</b>	<b>(28.4)</b>	<b>(159.8)</b>
<b>Income before provision for income taxes</b>	<b>1,568.0</b>	<b>3,899.0</b>	<b>3,154.8</b>	<b>7,231.6</b>
Income tax expense (benefit)	951.0	1,425.0	1,251.6	2,531.0
Equity-method investment activity, net of tax	(21.0)	(96.0)	(6.0)	(8.0)
<b>Reported GAAP Net Income</b>	<b>596.0</b>	<b>2,378.0</b>	<b>1,897.3</b>	<b>4,692.5</b>
<b>Pro Forma Net Income</b>	<b>241.6</b>	<b>4,436.1</b>	<b>5,155.7</b>	<b>8,169.0</b>
<b>Reported GAAP EPS</b>	<b>\$ 1.25</b>	<b>\$ 4.92</b>	<b>\$ 3.85</b>	<b>\$ 9.45</b>
<b>Pro Forma EPS</b>	<b>\$ 0.51</b>	<b>\$ 9.17</b>	<b>\$ 10.47</b>	<b>\$ 16.45</b>
Basic shares outstanding	467.5	473.5	479.3	483.5
Diluted shares outstanding	475.3	483.8	492.3	496.5
<b>EBITDA</b>				
Depreciation and Amortization	6,281.0	8,117.0	10,620.6	11,645.8
Adjusted EBITDA	8,514.0	12,310.0	13,803.9	19,037.2
Adjusted EBITDA Margin	8.0%	9.1%	8.2%	9.2%
<b>MARGIN ANALYSIS</b>				
Gross margin	33.0%	35.1%	36.7%	37.6%
Fulfillment	12.1%	12.5%	13.0%	12.5%
Marketing	4.7%	5.1%	5.4%	5.0%
Technology and content	10.6%	10.6%	11.8%	11.7%
General and administrative	1.4%	1.6%	1.8%	1.7%
Operating margin	2.1%	3.1%	1.9%	3.6%
Tax rate	60.7%	36.5%	39.7%	35.0%
Pro forma net margin	0.2%	3.3%	3.1%	3.9%
<b>YEAR OVER YEAR GROWTH</b>				
Revenues	20.2%	27.1%	24.2%	22.5%
Gross profit	34.8%	35.0%	29.8%	25.6%
Fulfillment	24.4%	31.2%	29.4%	17.9%
Marketing	20.3%	36.5%	30.9%	15.1%
Technology and content	33.6%	27.4%	38.4%	21.1%
General and administrative	12.0%	39.0%	41.7%	19.5%
Operating income	1154.5%	87.8%	-24.1%	132.2%
Pro forma net income	-63.6%	1736.5%	16.2%	58.4%

Source: Company reports, Needham &amp; Company, LLC

**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 also below 7.9x FY18 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**

I, Kerry Rice hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company (ies) and its (their) securities. I, also certify that I, have not been, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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Buy	65	15
Hold	25	6
Underperform	1	0
Rating Suspended	< 1	0
Restricted	< 1	0

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