

Equity Research

WELLS
FARGO

Price Target Change — November 1, 2024

Internet

Amazon.com, Inc. (AMZN)

3Q:24 EPS Review: Solid OI Beat and Raise, From Unfamiliar Sources

Our Call

The thesis on AMZN shares is shifting. AWS acceleration stalled in 3Q and NA retail margins no longer the primary source of OI revisions. Enter AWS and Int'l as the primary margin drivers. While near-term OI better, less confidence in sustainability.

4Q:24 HE OI guide \$20B above market expectations and our cautious preview, though sources of OI upside now AWS margins and Int'l margins. Despite AWS revenue falling short of expectations and mgmt assertions that 1Q:24 AWS margins were unlikely to be repeated, 3Q AWS margins exceeded 1Q levels by 50bps. We raise AWS OI by 7%/10% in '25/'26, resp. Int'l OI, notoriously unpredictable, also well ahead in 3Q at \$1.3B vs. our \$98M. Now assume \$4.9B/\$6.5B in OI vs. \$3.2B/\$5.4B prior in '25/'26, resp.

AWS acceleration story pauses in 3Q as 19% growth falls short of 21% buy-side expectation. Given bullish checks, an improving AI narrative & a 6pt accel at GCP, the lack of acceleration at AWS was highly unexpected. Investors will likely scrutinize the AWS backlog forthcoming in the 1Q-Q; figure has been sequentially flat for 3 quarters. Mgmt disclosed AI revs at a "multibillion dollar revenue run rate" growing triple digits. We revise down '24 AWS revs to +19% from +20%, maintain +19% for '25.

NA retail margin improvement is no longer the driver of results it was 2Q:23-1Q:24, when margins expanded by an avg of 500bps y/y for 4 straight quarters. 3Q NA retail margins expanded by only 100bps y/y despite what we perceived to be solid advertising (+19%) and units +12%. Believe primary culprits remain trade down (ASP est. -2%) and delayed benefits from inbound logistics initiatives. Curious was lack of mention of Kuiper, which despite launch delays, project driving \$5B+ in losses in '25.

Implied 4Q total CapEx of \$24B results in H2:24 CapEx of \$45B, 50% greater than H1:24 of \$30B, with mgmt guiding to y/y CapEx growth in 2025 on greater AWS investment. Given the rapid growth in AI workloads, we foresee cont'd CapEx intensity and raise our 2025 CapEx est. to \$90B from \$85B. Expect AWS to be a willing and aggressive participant in a scaled CapEx race. Because AMZN isn't a principal in the frontier model space, see a relatively short payback period on server/chip investment.

Estimate revisions, price target and valuation: While we increase '24 revenue +0.2% vs. prior, we reduce '25 / '26 revenue -0.4% on slightly softer online stores and AWS revenue growth. Overall OI margins increase 60 / 69 / 90 bps vs. prior ests, but note that all the margin increase results from better AWS and Int'l retail profitability with NA retail margins ~flat vs. prior. We reiterate our Equal Weight rating and move our price target to \$197 (prior: \$183), based on 25x 2026 EPS of \$7.90.

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Rating	Equal Weight
Ticker	AMZN
Price Target/Prior:	\$197.00/\$183.00
Upside/(Downside) to Target	5.7%
Price (10/31/2024)	\$186.40
52 Week Range	\$133.71 - 201.20
Shares Outstanding (MM)	10,492
Market Cap (MM)	\$1,955,709
Enterprise Value (MM)	\$1,921,506
Average Daily Volume	38,036,880
Average Daily Value (MM)	\$7,090
Dividend (NTM)	NM
Net Debt (MM) - last reported	\$(34,203)
ROIC - Current year est.	16%
3 Yr EPS CAGR from current year (unless otherwise noted)	25%

	2023A	2024E	2024E	2025E	2025E
		Curr.	Prior	Curr.	Prior
\$ EPS					
Q1 (Mar)	0.31 A	0.98 A	NC	-	NC
Q2 (Jun)	0.65 A	1.26 A	NC	-	NC
Q3 (Sep)	0.94 A	1.43 A	1.26E	-	NC
Q4 (Dec)	1.00 A	1.55 E	1.32E	-	NC
FY	2.89 A	5.21 E	4.82E	6.16 E	5.78E
P/E	64.5x	35.8x		30.3x	

Source: Company Data, Wells Fargo Securities estimates, and Factset.
NA = Not Available, NC = No Change, NE = No Estimate

Wells Fargo Express Takeaways

Amazon.com, Inc. (AMZN) | Rating: Equal Weight | Price Target: \$197.00

Analyst: Ken Gawrelski

Financials

FY (Dec)	2023A	2024E	2025E
\$			
ESTIMATES			
EPS			
Q1	0.31 A	0.98 A	-
Q2	0.65 A	1.26 A	-
Q3	0.94 A	1.43 A	-
Q4	1.00 A	1.55 E	-
AN	2.89 A	5.21 E	6.16 E
Rev. (MM)	574,785.0 A	637,432.0 E	703,935.0 E
EBIT (MM)	36,852.0 A	67,344.0 E	79,065.0 E

WELLS FARGO vs. CONSENSUS

Consensus Estimate	-	5.16 E	6.28 E
Difference from Consensus		1.0%	(1.8)%

VALUATION

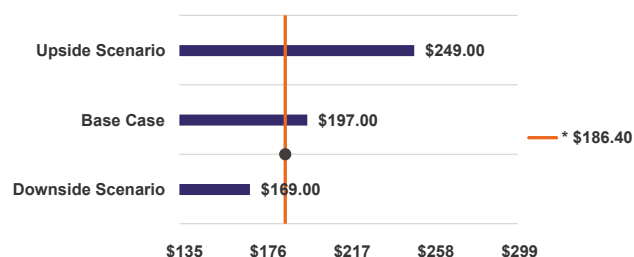
P/E	64.5x	35.8x	30.3x
EV/Revenue	3.3x	3.0x	2.7x
EV/EBIT	52.1x	28.5x	24.3x

Consensus Estimate: GAAP EPS; Source: VisibleAlpha
Source: Company Data, Wells Fargo Securities estimates, and Factset.
NA = Not Available, NE = No Estimate

Investment Thesis

Amazon (EW) has been a consistent positive revision story, but we see several factors pressure revisions in the near term. View Project Kuiper investment, anticipated FBA fee pressure, and moderating advertising OI contribution as headwinds. We caution that margin expansion could be capped in 1H25. Keeping these headwinds in context, while Amazon remains a margin expansion story, we see a more moderate margin expansion pace than the market expects.

Risk vs. Reward – Upside/Downside Price Target Scenarios



*As of 10/31/24
Source: Wells Fargo Securities, LLC estimates and Factset.

Base Case | \$197.00

- Our \$197 PT is based on 25x 2026E EPS of \$7.90
 - 10.0x 2026E EV/EBITDA
 - Believe the lower EV/EBITDA multiple than its average since 4Q21 is warranted as AMZN enters a more mature growth phase

Upside Scenario | \$249.00

- Upside scenario
 - \$249 Price target based on 30x higher 2026E EPS of \$8.29
- Assumptions
 - Stronger reacceleration in AWS revenue
 - More near-term North America / International margin recovery from the implementation of more cost saving initiatives
 - i.e., additional savings from regional fulfillment transition

Downside Scenario | \$169.00

- Downside Scenario
 - \$169 Price target based on 22.5x 2026E EPS of \$7.50
- Assumptions
 - Lack of accel in AWS revenue
 - Unexpected rapid grocery expansion
 - Lower terminal retail margins due to weaker-than-expected savings from regional fulfillment and other cost saving initiatives
 - Unfavorable outcome from the FTC's antitrust lawsuit

Upcoming Catalysts

- 4Q:24 Earnings Report
- AWS re:invent - December '24

Company Description

Amazon.com, Inc. offers services to consumers, sellers, and developers. The Company offers programs that enable sellers to sell their products on its websites and their own branded websites. Amazon.com serves developers through Amazon Web Services (AWS), which provides access to technology infrastructure that developers can use to enable any type of business. Amazon.com has organized its operations into three principal segments: North America, International & AWS.

Exhibit 1 - AMZN Actuals vs. Expected
\$ in M

Actual vs. Estimates	Actual 3Q24	% - Y/Y	WFS Est. 3Q24	Actual vs. WFS Est.	Street 3Q24	Actual vs. Street	Guidance
Total Revenue	158,877	11%	157,121	1%	157,270	1%	154,000 - 158,500
Operating Income	17,411	56%	16,149	8%	14,700	18%	11,500 - 15,000
<i>Op Margin</i>	11.0%	314 bps	10.3%	68 bps	9.3%	161 bps	
Revenue Lines							
Online Stores	61,411	7%	59,856	3%	59,589	3%	
3rd Party Seller Services	37,864	10%	37,713	0%	38,193	-1%	
Physical Stores	5,228	5%	5,157	1%	5,155	1%	
Subscription	11,278	11%	11,223	0%	11,151	1%	
Advertising	14,331	19%	14,100	2%	14,286	0%	
AWS	27,452	19%	27,901	-2%	27,483	0%	
Segment Revenue							
North America	95,537	9%	94,642	1%	95,242	0%	
International	35,888	12%	34,578	4%	34,312	5%	
AWS	27,452	19%	27,901	-2%	27,483	0%	
Segment OI							
North America	5,663	31%	5,871	-4%	5,407	5%	
<i>Op Margin - NA</i>	5.9%	103 bps	6.2%	(28) bps	5.7%	25 bps	
International	1,301	-1469%	98	1226%	225	477%	
<i>Op Margin - International</i>	3.6%	392 bps	0.3%	334 bps	0.7%	297 bps	
AWS	10,447	50%	10,179	3%	9,124	14%	
<i>Op Margin - AWS</i>	38.1%	780 bps	36.5%	157 bps	33.2%	486 bps	
Segment CapEx							
AWS CapEx (WFS)	16,278	158%	14,000	16%	10,424	56%	
Retail CapEx (WFS)	5,000	0%	4,500	11%	6,178	-19%	
Total CapEx	21,278	88%	18,500	15%	16,602	28%	

Source: Wells Fargo Securities, LLC Estimates, Company Reports, VisibleAlpha, Bloomberg

Exhibit 2 - AMZN Guidance vs. Estimates
\$ in M

Consensus vs. Guidance	Guidance Midpoint	% - Y/Y	WFS Prior Est. 4Q24	Guidance vs. WFS Prior Est.	Street 4Q24	Guide vs. Street
Total Revenue	185,000	9%	187,794	-1%	186,447	-1%
Operating Income	18,000	36%	17,243	4%	17,456	3%
<i>Op Margin</i>	9.7%	196 bps	9.2%	55 bps	9.4%	37 bps

Consensus vs. Guidance	Guidance High	% - Y/Y	WFS Prior Est. 4Q24	Guidance vs. WFS Prior Est.	Street 4Q24	Guide vs. Street
Total Revenue	188,500	11%	187,794	0%	186,447	1%
Operating Income	20,000	51%	17,243	16%	17,456	15%
<i>Op Margin</i>	10.6%	284 bps	9.2%	143 bps	9.4%	125 bps

Consensus vs. Guidance	Guidance Low	% - Y/Y	WFS Prior Est. 4Q24	Guidance vs. WFS Prior Est.	Street 4Q24	Guide vs. Street
Total Revenue	181,500	7%	187,794	-3%	186,447	-3%
Operating Income	16,000	21%	17,243	-7%	17,456	-8%
<i>Op Margin</i>	8.8%	104 bps	9.2%	(37 bps)	9.4%	(55 bps)

Source: Wells Fargo Securities, LLC Estimates, Company Reports, VisibleAlpha

Exhibit 3 - AMZN Estimate Revisions

\$ in M

WFS Estimate Changes	New WFS Est. 3Q24	Old WFS Est. 3Q24	% - Change (ex-OI)	New WFS Est. 4Q24	Old WFS Est. 4Q24	% - Change (ex-OI)
Total Revenue	158,877	157,121	1.1%	187,265	187,794	-0.3%
Operating Income	17,411	16,149	7.8%	19,954	17,243	15.7%
Op Margin	11.0%	10.3%	68 bps	10.7%	9.2%	147 bps
Revenue Lines						
Online Stores	61,411	59,856	2.6%	74,189	74,487	-0.4%
3rd Party Seller Services	37,864	37,713	0.4%	48,571	48,438	0.3%
Physical Stores	5,228	5,157	1.4%	5,410	5,358	1.0%
Subscription	11,278	11,223	0.5%	11,617	11,617	0.0%
Advertising	14,331	14,100	1.6%	17,246	17,203	0.3%
AWS	27,452	27,901	-1.6%	28,803	29,287	-1.7%
Segment Revenue						
North America	95,357	94,642	0.8%	114,261	114,290	0.0%
International	35,888	34,578	3.8%	44,201	44,217	0.0%
AWS	27,452	27,901	-1.6%	28,803	29,287	-1.7%
Segment OI						
North America	5,663	5,871	(208)	7,656	6,883	772
Op Margin - NA	5.9%	6.2%	(27) bps	6.7%	6.0%	68 bps
International	1,301	98	1,203	1,761	242	1,520
Op Margin - International	3.6%	0.3%	334 bps	4.0%	0.5%	344 bps
AWS	10,447	10,179	268	10,537	10,118	419
Op Margin - AWS	38.1%	36.5%	157 bps	36.6%	34.5%	203 bps
Segment CapEx						
AWS CapEx (WFS)	16,278	14,000	16.3%	18,000	15,000	20.0%
Retail CapEx (WFS)	5,000	4,500	11.1%	6,000	4,500	33.3%
Total CapEx	21,278	18,500	15.0%	24,000	19,500	23.1%

WFS Estimate Changes	New WFS Est. FY24	Old WFS Est. FY24	% - Change (ex-OI)	New WFS Est. FY25	Old WFS Est. FY25	% - Change (ex-OI)	New WFS Est. FY26	Old WFS Est. FY26	% - Change (ex-OI)
Total Revenue	637,432	636,205	0.2%	703,935	707,020	-0.4%	776,596	780,046	-0.4%
Operating Income	67,344	63,371	6.3%	79,065	74,560	6.0%	100,725	94,164	7.0%
Op Margin	10.6%	10.0%	60 bps	11.2%	10.5%	69 bps	13.0%	12.1%	90 bps
Revenue Lines									
Online Stores	245,662	244,405	0.5%	258,721	263,789	-1.9%	275,494	283,329	-2.8%
3rd Party Seller Services	157,232	156,948	0.2%	174,869	171,957	1.7%	192,474	187,035	2.9%
Physical Stores	21,046	20,923	0.6%	22,098	21,970	0.6%	23,203	23,068	0.6%
Subscription	44,483	44,428	0.1%	49,687	49,625	0.1%	55,814	55,746	0.1%
Advertising	56,172	55,898	0.5%	64,389	64,310	0.1%	73,250	73,089	0.2%
AWS	107,573	108,506	-0.9%	127,724	129,080	-1.1%	149,437	151,024	-1.1%
Segment Revenue									
North America	386,172	385,306	0.2%	420,281	420,838	-0.1%	456,530	455,635	0.2%
International	143,687	142,393	0.9%	155,930	157,102	-0.7%	170,630	173,387	-1.6%
AWS	107,573	108,506	-0.9%	127,724	129,080	-1.1%	149,437	151,024	-1.1%
Segment OI									
North America	23,367	22,803	564	27,803	27,999	(196)	39,096	38,985	111
Op Margin - NA	6.1%	5.9%	13 bps	6.6%	6.7%	(4) bps	8.6%	8.6%	1 bps
International	4,238	1,516	2,722	4,948	3,378	1,570	6,488	5,435	1,053
Op Margin - International	2.9%	1.1%	189 bps	3.2%	2.2%	102 bps	3.8%	3.1%	67 bps
AWS	39,739	39,052	687	46,313	43,184	3,130	55,141	49,744	5,397
Op Margin - AWS	36.9%	36.0%	95 bps	36.3%	33.5%	281 bps	36.9%	32.9%	396 bps
Segment CapEx									
AWS CapEx (WFS)	55,606	50,328	10.5%	70,000	65,000	7.7%	78,000	65,000	20.0%
Retail CapEx (WFS)	20,000	18,000	11.1%	20,000	20,000	0.0%	20,000	20,000	0.0%
Total CapEx	75,606	68,328	10.7%	90,000	85,000	5.9%	98,000	85,000	15.3%

Source: Wells Fargo Securities, LLC Estimates, Company Reports

Financials

Exhibit 4 - AMZN Income Statement

(USD Millions, Except per Share)	2019A	2020A	2021A	2022A	2023A	1Q24A	2Q24A	3Q24A	4Q24E	2024E	2025E	2026E	2027E
Income Statement													
Revenue	280,522	386,064	469,822	513,983	574,785	143,313	147,977	158,877	187,265	637,432	703,935	776,596	848,430
Cost of Sales	(165,536)	(233,307)	(272,344)	(288,831)	(304,739)	(72,633)	(73,785)	(80,977)	(98,055)	(325,450)	(345,989)	(371,005)	(394,233)
Gross Profit	114,986	152,757	197,478	225,152	270,046	70,680	74,192	77,900	89,210	311,982	357,946	405,592	454,198
% Y/Y - Gross Profit	22.7%	32.8%	29.3%	14.0%	19.9%	18.7%	14.1%	14.5%	15.2%	15.5%	14.7%	13.3%	12.0%
Fulfillment	(40,232)	(58,517)	(75,111)	(84,299)	(90,619)	(22,317)	(23,566)	(24,660)	(28,329)	(98,872)	(108,473)	(115,684)	(126,289)
Technology and Content	(35,931)	(42,740)	(56,052)	(73,213)	(85,622)	(20,424)	(22,304)	(22,245)	(23,905)	(88,878)	(108,423)	(120,284)	(136,675)
Sales and Marketing	(18,878)	(22,008)	(32,551)	(42,238)	(44,370)	(9,662)	(10,512)	(10,609)	(13,694)	(44,477)	(49,128)	(54,924)	(60,029)
General and Administrative	(5,203)	(6,668)	(8,823)	(11,891)	(11,816)	(2,742)	(3,041)	(2,713)	(3,278)	(11,774)	(12,458)	(13,575)	(14,797)
Other Expense, net	(201)	75	(62)	(1,263)	(767)	(228)	(97)	(262)	(50)	(637)	(400)	(400)	(400)
Total Costs and Expenses	(265,981)	(363,165)	(444,943)	(501,735)	(537,933)	(128,006)	(133,305)	(141,466)	(167,312)	(570,089)	(624,871)	(675,871)	(732,421)
Operating Income	14,541	22,899	24,879	12,248	36,852	15,307	14,672	17,411	19,954	67,344	79,065	100,725	116,009
% Y/Y - Operating Income	17.1%	57.5%	8.6%	(50.8%)	200.9%	220.6%	91.0%	55.6%	51.1%	82.7%	17.4%	27.4%	15.2%
% Margin - Operating Income	5.2%	5.9%	5.3%	2.4%	6.4%	10.7%	9.9%	11.0%	10.7%	10.6%	11.2%	13.0%	13.7%
Interest Income	832	555	448	989	2,949	993	1,180	1,256	1,241	4,670	5,523	6,859	9,214
Interest Expense	(1,600)	(1,647)	(1,809)	(2,367)	(3,182)	(644)	(589)	(603)	(406)	(2,242)	(1,594)	(1,594)	(1,594)
Other	203	2,371	14,633	(16,806)	938	(2,673)	(18)	(27)	0	(2,718)	0	0	0
Other Income (Expenses), Net	(565)	1,279	13,272	(18,184)	705	(2,324)	573	626	836	(289)	3,929	5,264	7,620
Pre-Tax Income	13,976	24,178	38,151	(5,936)	37,557	12,983	15,245	18,037	20,790	67,055	82,994	105,990	123,629
Equity-Method Investment Activity, Net of Tax	(14)	16	4	(3)	(12)	(85)	7	(3)	0	(81)	0	0	0
Provision for Income Taxes	(2,374)	(2,863)	(4,791)	3,217	(7,120)	(2,467)	(1,767)	(2,706)	(4,158)	(11,098)	(16,599)	(21,198)	(24,726)
Net Income	11,588	21,331	33,364	(2,722)	30,425	10,431	13,485	15,328	16,632	55,876	66,395	84,792	98,903
% Tax Rate	17.0%	11.8%	12.6%	54.2%	19.0%	19.0%	11.6%	15.0%	20.0%	16.6%	20.0%	20.0%	20.0%
Basic Shares Outstanding	9,880	10,000	10,117	10,189	10,303	10,393	10,447	10,501	10,497	10,459	10,510	10,475	10,441
Diluted Shares Outstanding	10,080	10,200	10,296	10,308	10,491	10,670	10,708	10,735	10,758	10,718	10,771	10,736	10,702
Basic EPS	\$1.17	\$2.13	\$3.30	(\$0.27)	\$2.95	\$1.00	\$1.29	\$1.46	\$1.58	\$5.34	\$6.32	\$8.09	\$9.47
Diluted EPS	\$1.15	\$2.09	\$3.24	(\$0.27)	\$2.89	\$0.98	\$1.26	\$1.43	\$1.55	\$5.21	\$6.16	\$7.90	\$9.24

Source: Wells Fargo Securities, LLC Estimates, Company Reports

Investment Thesis, Valuation and Risks

Amazon.com, Inc. (AMZN)

Investment Thesis

Amazon (EW) has been a consistent positive revision story, but we see several factors pressure revisions in the near term. View Project Kuiper investment, anticipated FBA fee pressure, and moderating advertising OI contribution as headwinds. We caution that margin expansion could be capped in 1H25. Keeping these headwinds in context, while Amazon remains a margin expansion story, we see a more moderate margin expansion pace than the market expects.

Target Price Valuation for AMZN: **\$197.00 from \$183.00**

- Our \$197 PT is based on 25x 2026E EPS of \$7.90
 - 10.0x 2026E EV/EBITDA
 - Believe the lower EV/EBITDA multiple than its average since 4Q21 is warranted as AMZN enters a more mature growth phase

Risks to Our Price Target and Rating for AMZN

- Downside Risks:
 - A reversal in eCommerce penetration in general merchandise
 - Further optimization of cloud spend
 - Macro slowdown that could further weaken online retail spend
 - Increased competition from traditional and discount eCommerce companies, both domestically and int'l
 - A negative decision from the FTC's anti-trust lawsuit
- Upside Risks:
 - Stronger reacceleration in AWS revenue
 - More near-term North America / International margin recovery from the implementation of more cost saving initiatives

Required Disclosures

I, Ken Gawrelski, certify that:

- 1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
- 2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm, which includes, but is not limited to investment banking revenue.

Additional Information Available Upon Request



Wells Fargo Securities, LLC, or its affiliates intends to seek or expects to receive compensation for investment banking services in the next three months from an affiliate of Amazon.com, Inc..

Wells Fargo Securities, LLC, maintains a market in the common stock of Amazon.com, Inc..

Amazon.com, Inc. currently is, or during the 12-month period preceding the date of distribution of the research report was, a client of Wells Fargo Securities, LLC. Wells Fargo Securities, LLC, provided non-investment banking securities-related services to Amazon.com, Inc..

Wells Fargo Securities, LLC, or any of its affiliates, intends to seek or expects to receive compensation for investment banking services from Amazon.com, Inc. in the next three months.

Wells Fargo Securities, LLC, received compensation for products or services other than investment banking services from Amazon.com, Inc. in the past 12 months.

Wells Fargo Securities, LLC, or its affiliates has a significant financial interest in Amazon.com, Inc..

STOCK RATING

OW=Overweight: Total return on stock expected to be 10%+ over the next 12 months. (BUY)

EW=Equal Weight: Total return on stock expected to be -10% to +10% over the next 12 months. (HOLD)

UW=Underweight: Total return on stock expected to lag the Overweight- and Equal Weight-rated stocks within the analyst's coverage universe over the next 12 months. (SELL)

NR=Not Rated: The rating and price target has been removed due to lack of fundamental basis to support the recommendation or due to legal, regulatory or company policy considerations.

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As of October 31, 2024

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