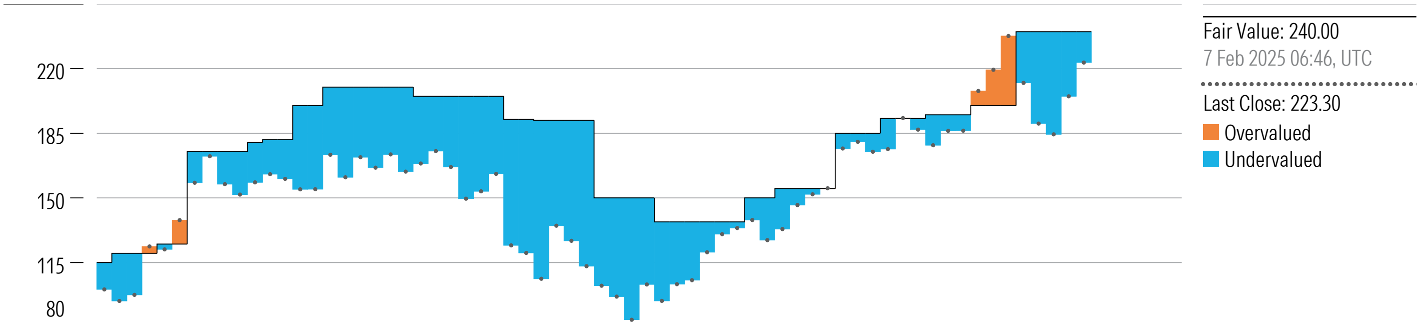
Morningstar Equity Analyst Report | Report as of 27 Jun 2025 23:43, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS

# Amazon.com Inc AMZN ★★★ 27 Jun 2025 21:26, UTC

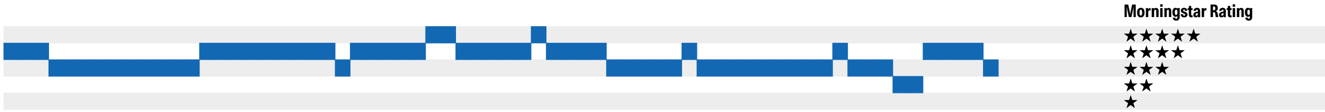
| Last Price | Fair Value Estimate | Price/FVE | Market Cap | Economic Moat™ | Equity Style Box | Uncertainty | Capital Allocation | ESG Risk Rating Assessment[1] |
|---|---|---|---|---|---|---|---|---|
| 223.30 USD<br>27 Jun 2025 | 240.00 USD<br>7 Feb 2025 06:46, UTC | 0.93 | 2.37 USD Tril<br>27 Jun 2025 | Wide | Large Blend | Medium | Exemplary | 4 Jun 2025 05:00, UTC |

**Price vs. Fair Value**




| | 2020 | 2021 | 2022 | 2023 | 2024 | YTD | |
|---|---|---|---|---|---|---|---|
| | 0.90 | 0.81 | 0.56 | 0.98 | 1.10 | 0.93 | Price/Fair Value |
| | 76.26 | 2.38 | -49.62 | 80.88 | 44.39 | 1.78 | Total Return % |

**Morningstar Rating**




Total Return % as of 27 Jun 2025. Last Close as of 27 Jun 2025. Fair Value as of 7 Feb 2025 06:46, UTC.

**Contents**



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The primary analyst covering this company does not own its stock.

[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.

## Post-Covid Amazon Is Leaner and Continues With Its Leadership Position

**Business Strategy & Outlook** Dan Romanoff, CPA, Senior Equity Analyst, 7 Feb 2025

Amazon dominates its served markets, notably for e-commerce and cloud services. It benefits from numerous competitive advantages and has emerged as the clear e-commerce leader given its size and scale, which yield an unmatched selection of low-priced goods for consumers. The secular drift toward e-commerce continues unabated with the firm continuing to grind out market share gains despite its size. Prime ties Amazon's e-commerce efforts together and provides a steady stream of high-margin recurring revenue from customers who purchase more frequently from Amazon's properties. In return, consumers get one-day shipping on millions of items, exclusive video content, and other services, which result in a powerful virtuous circle where customers and sellers attract one another. The Kindle and other devices further bolster the ecosystem by helping attract new customers, while making the value proposition irresistible in retaining existing users.

Through Amazon Web Services, or AWS, Amazon is also a clear leader in public cloud services. Additionally, the company's advertising business is already large and continues to scale as ads have made their way into Amazon's streaming outlets, thus offering an attractive option for marketers looking to access a vast audience with a variety of proprietary data points about those very consumers. AWS and advertising growth should continue to outpace e-commerce growth and should be the main growth drivers over the next five years. This is critical, as each of these segments drives higher margins

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| Sector | Industry |
|---|---|
| Consumer Cyclical | Internet Retail |

**Business Description**

Amazon is the leading online retailer and marketplace for third party sellers. Retail related revenue represents approximately 75% of total, followed by Amazon Web Services' cloud computing, storage, database, and other offerings (15%), advertising services (5% to 10%), and other the remainder. International segments constitute 25% to 30% of Amazon's non-AWS sales, led by Germany, the United Kingdom, and Japan.

than the corporate average, which in turn should allow both operating profit and EPS to outgrow revenue as margins continue to expand.

From a retail perspective, we expect continued innovation to help drive further share gains in a post-lockdown world. We also look for continued penetration into categories such as groceries and luxury goods that have not previously translated into the same level of success as other retail categories. We see technology advancements in AWS and a bigger push to service enterprise customers as helping to maintain the company's lead there. Overall, we see good revenue and free cash flow growth for years to come.

**Bulls Say** Dan Romanoff, CPA, Senior Equity Analyst, 7 Feb 2025

- Amazon is the clear leader in e-commerce and enjoys unrivaled scale to continue to invest in growth opportunities and drive the very best customer experience.
- High-margin advertising and AWS are growing faster than the corporate average, which should continue to boost profitability over the next several years.
- Amazon Prime memberships help attract and retain customers who spend more with Amazon; this reinforces a powerful network effect while bringing in recurring and high-margin revenue.

**Bears Say** Dan Romanoff, CPA, Senior Equity Analyst, 7 Feb 2025

- Regulatory concerns are rising for large technology firms, including Amazon. Further, the firm may face increasing regulatory and compliance issues as it expands internationally.
- New investments, notably in fulfillment, delivery, and AWS, should damp free cash flow growth. Also, Amazon's penetration into some countries might be harder than in the US due to inferior logistic networks.
- Amazon may not be as successful in penetrating new retail categories, such as luxury goods, due to consumer preferences and an improved e-commerce experience from larger retailers.

**Economic Moat** Dan Romanoff, CPA, Senior Equity Analyst, 1 May 2024

We assign a wide moat rating to Amazon based on network effects, cost advantages, intangible assets, and switching costs. Amazon has been disrupting the traditional retail industry for more than two decades while also emerging as the leading infrastructure-as-a-service provider via Amazon Web Services. This disruption has been embraced by consumers and has driven change across the entire industry as traditional retailers have invested heavily in technology in order to keep pace. Covid-19 has accelerated change, and given the company's technological prowess, massive scale, and relationship with consumers, we think Amazon has widened its lead, which we believe will result in economic returns well in excess of its cost of capital for years to come.

We believe Amazon's retail business has a wide moat stemming from network effects associated with

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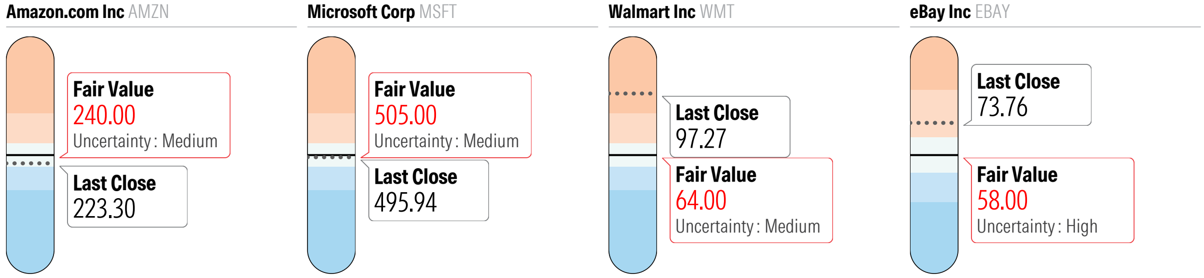
## Competitors




| | Amazon.com Inc AMZN | Microsoft Corp MSFT | Walmart Inc WMT | eBay Inc EBAY |
|---|---|---|---|---|
| Economic Moat | Wide | Wide | Wide | Narrow |
| Currency | USD | USD | USD | USD |
| Fair Value | 240.00 7 Feb 2025 06:46, UTC | 505.00 1 May 2025 01:56, UTC | 64.00 15 May 2025 19:43, UTC | 58.00 28 Feb 2025 15:21, UTC |
| 1-Star Price | 324.00 | 681.75 | 86.40 | 89.90 |
| 5-Star Price | 168.00 | 353.50 | 44.80 | 34.80 |
| Assessment | Fairly Valued 27 Jun 2025 | Fairly Valued 27 Jun 2025 | Overvalued 27 Jun 2025 | Overvalued 27 Jun 2025 |
| Morningstar Rating | ★★★27 Jun 2025 21:26, UTC | ★★★27 Jun 2025 21:23, UTC | ★27 Jun 2025 21:28, UTC | ★★27 Jun 2025 21:29, UTC |
| Analyst | Dan Romanoff, Senior Equity Analyst | Dan Romanoff, Senior Equity Analyst | Erin Lash, Sector Director | Dan Wasiolek, Senior Equity Analyst |
| Capital Allocation | Exemplary | Exemplary | Standard | Standard |
| Price/Fair Value | 0.93 | 0.98 | 1.52 | 1.27 |
| Price/Sales | 3.59 | 13.76 | 1.13 | 3.50 |
| Price/Book | 7.53 | 11.49 | 9.15 | 6.89 |
| Price/Earning | 36.98 | 38.27 | 41.03 | 18.01 |
| Dividend Yield | 0.00% | 0.65% | 0.92% | 1.52% |
| Market Cap | 2,368.40 Bil | 3,686.47 Bil | 776.26 Bil | 33.99 Bil |
| 52-Week Range | 151.61—242.52 | 344.79—499.30 | 66.67—105.30 | 52.03—79.84 |
| Investment Style | Large Blend | Large Blend | Large Blend | Mid Value |

its marketplace, where more buyers and sellers continually attract more buyers and sellers; a cost advantage tied to purchasing power, logistics, vertical integration (proprietary brands, owned delivery, and so on), and a negative cash conversion cycle; and intangible assets associated with technology and branding. We also believe AWS is a wide-moat business, thanks to high customer switching costs; a cost advantage associated with economies of scale where few competitors can keep up with Amazon's investment pace; intangible assets arising from semiconductor and facility development; and a network effect associated with a marketplace for software created to make AWS work better. We also would assign Amazon's burgeoning advertising business a narrow moat based on intangible assets from its proprietary data on hundreds of millions of users and a network effect again focusing on buyers and sellers meeting in the largest available venues. We believe that the wide moat for Amazon's entire business is greater than the sum of its parts; we prefer to analyze Amazon's moat on the whole, as the company's segments reinforce one another and returns result in an unrivaled consumer experience.

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Together, we believe Amazon's retail business enjoys a wide moat supported by cost advantages, intangible assets, and network effects. We assess the moat around Amazon's retail business based on a combination of online stores, third-party seller services, subscription services, and physical stores, as we find it challenging to think about durable competitive advantages for each of these segments in isolation. Given its massive scale, Amazon has created cost advantages including buying power, economies of scope, route density, and research and development. From a total gross merchandise value perspective, with approximately $580 billion in 2021, it finally surpassed Walmart. Similarly, Amazon is the largest online retailer and is an order of magnitude larger than Walmart and 4 times larger than Shopify, assuming we classify Shopify as a demand aggregator. Additionally, the company has become more vertically integrated over time and most recently has built out its own transportation network. Size dictates certain scales of efficiency, but we think Amazon is the definition of operational excellence.

These advantages are related and reinforce one another in a virtuous circle. Low prices and an unmatched selection have come to define the company in consumer's minds, giving rise to intangible assets from branding and technology (search capabilities and recommendation engine). Product searches are more likely to begin on Amazon at this point than they are Google. Amazon has become the only demand aggregator at scale in the US because of its wide selection, intelligent recommendation algorithms, low prices, and convenience, which combine into a powerful business model.

We also believe Amazon's retail business benefits from network effects. The sheer number of consumers shopping on Amazon makes it attractive to third party sellers, while the marketplace expands the selection available to shoppers and makes Amazon a more attractive online destination for consumers. In fact, 50%-55% of total goods sold by Amazon are through its third-party marketplace. At the heart of third-party seller services is the commission Amazon collects from the independent seller. However, these services also include Fulfillment by Amazon, distribution facility storage, shipping, payment processing, and other related items.

To improve the consumer experience and more tightly tie users to Amazon, the company has moved increasingly into content. Consumers can now have Prime Video, Music Unlimited, Kindle Unlimited, Prime Gaming, and other similar subscription services. The company even produces original content for Prime Video to help reinforce the notion that consumers can get anything they need from Amazon. We view the Kindle, Echo, Fire, and other Amazon original devices as interesting on their own merits, but think the underlying point is to once again draw in more consumers to Amazon's retail properties and engage those customers that are already within the ecosystem. Amazon's hardware helps to enable Amazon's services. The Kindle, for example, dovetails perfectly with Kindle Unlimited, which for a $9.99 monthly subscription, allows users to read from a selection of more than one million book titles. The company even offers a direct-to-Kindle book publishing service.

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The common thread that weaves throughout Amazon's retail business is Amazon Prime, which for $139 per year allows users unlimited free shipping on millions of stock-keeping units, including same-day or one-day shipping on many items, access to Prime Video and Prime Music, and a variety of other benefits. We view Prime subscriptions and the differentiated user experience they offer as critical to attracting and retaining customers. Prime memberships generate high cash flow that can be reinvested in further improving the user experience on the technology, content, and delivery fronts. Prime customers are very sticky and tend to purchase from Amazon more frequently and across more retail categories. We think content combined with Prime subscriptions actually build a switching cost that consumers would need to overcome, although these switching costs might not last for decades in order to warrant it as a moat source.

Advertising is tangentially related to Amazon's retail operations in that it takes place on Amazon's own online properties. Advertising is growing rapidly and is likely the segment with the highest operating margins in Amazon's portfolio, likely in excess of 30%, which is would be directionally comparable to margins earned by Facebook when it was a similarly sized business (other was $21 billion in revenue in 2020, compared with $18 billion in revenue for Facebook in 2015). We believe advertising dollars flow to where the eyeballs are and where information is known about the online user, which fits in very well with Amazon's strengths. We therefore expect advertising to grow rapidly over the next several years and continue to boost the company's overall profitability.

Looking at advertising in isolation, we would likely give it a narrow moat rating based on intangible assets arising from proprietary technology (data), and network effects, although assigning a moat rating here is difficult because Amazon doesn't disclose much about this business. That said, we can see Amazon's advertising becoming a wide-moat business as it becomes more established and more details are disclosed. We think Amazon's advertising business is attractive to advertisers because there is proprietary information about the consumers and real-time data about when they are searching for a particular product, and Amazon already enjoys substantial traffic. We expect this business to continue to grow rapidly and offer an attractive alternative to platforms from social network and internet search providers.

Amazon Web Services enjoys a wide moat supported by switching costs, network effects, intangible assets, and cost advantages. Amazon was a pioneer in public cloud infrastructure as a service and platform as a service and retains a substantial lead over its closest rival, Microsoft. AWS has driven profitability for the entire company; although it represents 10%-15% of revenue, it generates 60%-65% of total operating profit dollars for Amazon. We also expect AWS to remain a key growth driver for the company over the next decade.

AWS differs from the company's e-commerce operations in that it is enterprise-facing rather than consumer-facing. Enterprise customers rely on AWS for core IT infrastructure, which represents significant switching costs in terms of the time and expense of integrating applications with core software elements, such as the database, and dedicates a user to a specific set of software development tools. Ultimately, the operational risks to changing mission-critical technology infrastructure is high, which is why core elements such as ERP systems and cloud providers are rarely changed.

Further, we believe it is cheaper initially for companies to move workloads to the cloud, as there are fewer upfront costs and a lower bar to clear for maintenance and administration. Additionally, Amazon has devoted significant R&D resources to adding advanced features to the platform. Along those lines, AWS offers scale advantages to clients in that it is cheaper and faster to set up IT infrastructure in the cloud compared with undertaking the same effort independently. Customers also benefit from the ability to scale up compute power for burst requirements, paying for only what they need and having it available effectively on-demand. We have seen some of the largest technology companies in the world simply fail to keep pace with Amazon's massive investments in IaaS over the years, and AWS' cost advantage over its rivals is obvious. Those firms struggle to compete in a meaningful way against AWS.

Amazon has amassed significant technology and process knowledge, which we believe is an intangible asset for the firm as a whole and also for AWS. These assets could also apply to the logistics aspect of the retail business. The company expanded its distribution network by roughly 50% in 2020 while managing through a global pandemic. Given the size of its footprint, this is a monumental achievement and speaks to the company's ability to quickly plan, construct, and expand facilities based on specific needs. The knowledge base to quickly and efficiently bring massive server farms online for AWS is similarly impressive and only comes from the experience of previously building hyperscale data centers. Additionally, the firm designs its own semiconductors, which are used to power its server arrays, and also developed proprietary robotic automation technology used in its fulfillment centers.

As with other large software companies, we see a network effect within AWS' ecosystem for third-party software, although we view this as more of secondary moat source. The large ecosystem of AWS users has benefited from the software development efforts of those same users, as they turn around and offer applications written on AWS for AWS users. Thus, users help attract other users to AWS. We see Microsoft and Salesforce in particular as the best comparable examples in software of creating network effects.

We think network effects, intangible assets, cost advantages, and switching combine to form a powerful moat for all of Amazon. We think many of these areas reinforce one another and see little difficulty in Amazon continuing to deliver returns on invested capital well in excess of its cost of capital over the long term.

**Fair Value and Profit Drivers** Dan Romanoff, CPA, Senior Equity Analyst, 7 Feb 2025

Our fair value estimate for Amazon is $240 per share, which implies a 2025 enterprise value to sales multiple of 4 times and a 2% free cash flow yield.

Over the long term, we expect e-commerce to continue to take share from brick-and-mortar retailers. We further expect Amazon to gain share online. We believe that over the medium term, covid pulled forward some demand by changing consumer behavior and better penetrating some retail categories, such as groceries, pharmacy, and luxury goods, that previously had not gained as much traction online. We think Prime subscriptions and the accompanying benefits, combined with selection, price, and convenience continue to drive the retail story. We also see international as being a longer-term opportunity within retail. We model total retail-related revenue growing at an 8% compound annual growth rate (CAGR) over the next five years.

We believe the critical growth drivers over the medium term will be AWS and advertising. Since these segments earn materially higher margins than the rest of the business, we also expect them to drive margins higher over time. Over the next five years, we project AWS revenue growing at a 16% CAGR and advertising revenue growing at a 17% CAGR. In total, Amazon should grow at an 10% CAGR through 2028. We model GAAP operating margin expanding from 11% (actual) in 2024 to approximately 13% in 2029 as the company grows into its expanded footprint and optimizes its substantial investment in delivery.

**Risk and Uncertainty** Dan Romanoff, CPA, Senior Equity Analyst, 2 Aug 2024

We assign Amazon a Morningstar Uncertainty Rating of Medium.

Amazon must protect its leading online retailing position, which can be challenging as consumer preferences change, especially post-covid-19 (as consumers may revert to prior behaviors), and traditional retailers bolster their online presence. Maintaining an e-commerce edge has pushed the company to make investments in nontraditional areas, such as producing content for Prime Video and building out its own transportation network. Similarly, the company must also maintain an attractive value proposition for its third-party sellers. Some of these investment areas have raised investor questions in the past, and we expect management to continue to invest according to its strategy, despite periodic margin pressure from increased spending.

The company must also continue to invest in new offerings. AWS, transportation, and physical stores (both Amazon branded and Whole Foods) are three notable areas of investment. These decisions require capital allocation and management focus and may play out over a period of years rather than quarters.

Continued international expansion will likely require similar investment and management attention but will also increase exposure to different regulatory environments. Some countries have instituted or may institute protectionist policies. Even domestically over the last several years, lawmakers from both

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parties have increasingly focused on the amount of market power large technology companies have accrued. Antitrust, data privacy, and section 230 have been repeatedly invoked.

From an environmental, social, and governance perspective, data breaches and service outages are a concern for any type of cloud service provider. As a retailer, Amazon has personal information for hundreds of millions of consumers around the world, while AWS hosts proprietary mission-critical data for enterprises.

**Capital Allocation** Dan Romanoff, CPA, Senior Equity Analyst, 7 Feb 2025

We assign Amazon an Exemplary Capital Allocation Rating. The rating reflects our assessments of a sound balance sheet, exceptional investments, and appropriate shareholder distributions. We think investments back into the business are most likely to be the key driver of total shareholder returns and are therefore appropriately prioritized over other capital returns such as dividends and buybacks, which Amazon does not offer. The company regularly makes small tuck-in acquisitions, which we view as immaterial to the company's financials.

The balance sheet is sound, with a substantial net cash position. We expect the balance sheet to remain solid as the company has typically maintained a conservative position and has historically generated substantial free cash flow from AWS and advertising to fund growth throughout the business.

Management's track record of investing in areas that investors were initially skeptical of but were ultimately vindicated has been remarkable. Chairman and CEO Jeff Bezos founded the company in 1994 and has led the company until he stepped down in 2021 but remains on the board of directors. He has been succeeded by Andy Jassy, former CEO of AWS. We note Mr. Bezos remains actively involved with the company as the executive chairman of the board, and that Mr. Jassy has been at the company for 23 years and was a driving force behind the foundation and growth of AWS. We think Mr. Jassy has managed the company through a very challenging period involving covid, and now faces a surge in generative AI demand, which carries a new set of challenges that we believe he is well suited to handle. Ultimately, we assess the overall investment track record as exceptional.

**Analyst Notes Archive**

**Amazon Earnings: Good Quarter Overall With AWS Decent; Guidance Light on Operating Income** Dan Romanoff, CPA,Senior Equity Analyst,2 May 2025

Amazon reported first-quarter results that beat the high end of guidance on both the top and bottom lines. Revenue grew by 10% year over year in constant currency to $155.7 billion, while operating margin was 11.8% versus 10.7% a year ago. Currency hurt sales growth by $1.4 billion. Why it matters: Results were generally good, with upside broadly on the top and bottom lines, which we think is positive in the face of looming tariffs. We see some prebuying behavior ahead of tariffs, which is worth monitoring if the tariff situation persists beyond the second quarter. Amazon produced upside to revenue in each of segments relative to our model except for third-party sellers, which was slightly light. Consumer buying behavior has not really changed in the face of tariffs, even through April. Advertising was impressive and helped buoy overall results. While there could be some mild disappointment around solid AWS results given Azure's very strong results on April 30, we note AWS faces the same capacity constraints and still produced upside to our estimate in the first quarter. Artificial intelligence workloads are growing in excess of 100% year over year on AWS. The bottom line: We maintain our fair value estimate of $240 per share as we see good results in conjunction with mixed guidance and we see shares as attractive. Coming up: Overall guidance is mixed, with revenue solid and profitability light relative to our model. Satellite launch costs for Project Kuiper will likely pressure margins for a couple quarters, while new AWS capacity coming online later this year will have a similar impact. We do not think these will have a major impact on Amazon's long-term profitability, but we have already been modelling relatively flat margins for 2025, so have not made meaningful changes. Considering the tariff situation, we see guidance as solid. Second-quarter guidance includes revenue of $159 billion-$164 billion, with operating income of $13.0 billion-$17.5 billion.

**Amazon Earnings: Good Quarter With Reasonable Guidance After Unusual Adjustments** Dan Romanoff, CPA,Senior Equity Analyst,7 Feb 2025

We are raising our fair value estimate for wide-moat Amazon to $240 per share from $200 after the company reported strong fourth-quarter results. The firm’s first-quarter outlook was slightly better than we expected, despite including more than $2 billion of incremental currency pressure on revenue. Additionally, given the early returns on the profitability front from the ongoing network improvement efforts, we modestly raised our profitability and working capital assumptions throughout our forecast period, which had a substantial impact on our valuation. When operating margins are relatively modest, even small improvements are meaningful. We see shares as fairly valued, after a strong run since early August.Retail demand trends have remained stable the last seven quarters, with e-commerce performing reasonably well but still showing signs of consumer stress. Fourth-quarter revenue grew 10% year over year, as reported to $187.8 billion, compared with the top end of guidance at $188.5 billion. Currency was a $700 million greater headwind than anticipated. Relative to our estimates, online stores, physical stores, and AWS performed best, while third party seller services and advertising were slightly light. The two key segments for long-term growth, AWS and advertising, expanded 19% and 18% year over year, respectively, as reported. Amazon’s advertising growth continues to perform inline with or better than large internet peers, while AWS' growth was strong and like Azure, is capacity constrained, so investment will surge further in 2025.Margins have been consistently stronger than anticipated over the past couple years, and we think there is room for expansion as the multi-hub strategy and increased use of robotics continue to unlock efficiencies. Fourth-quarter profitability was impressive, with operating profit at $21.2 billion, compared with the high end of guidance at $20.0

billion. This resulted in an operating margin of 11.3%, compared with 7.8% a year ago.

**AI DeepSeek Coverage Summary: Maintaining Our Fair Values; Pullback Was Healthy** Eric Compton, CFA,Director,28 Jan 2025

We have consolidated our recent DeepSeek-related coverage in this note. Artificial intelligence affects companies across much of our coverage, including semiconductors, cloud infrastructure, software, utilities, and energy.Many of the firms under our coverage with an "AI premium" were already trading in 1- to 2-star territory. Our valuations were already positioned for a pullback of this nature, as we were having a hard time justifying the increases in revenue implied by these valuations. We view the current pullback as healthy, even as we remain positive on the long-term potential of AI. We have maintained our fair value estimates across the affected companies.Our thesis, after the release of DeepSeek, is that we were going to see instances of sleeker, more-efficient AI models that would not rely on massive clusters of AI GPUs and related hardware. This was the only way the ecosystem was going to successfully address large numbers of use cases in the long term. We believe that lower costs—making AI cheaper, therefore more economical—increase the number of use cases it is viable for, and as a result, should increase demand. This is the same path the PC revolution followed, with computing power becoming cheap enough that millions of individuals could use it at an affordable cost. The same happened with the cloud and SaaS revolution thereafter, where the incremental cost of adding users was close to zero. We believe a future where AI was both prohibitively expensive and also "taking over the world" was not likely. As such, we view the advancements made by DeepSeek as promising and healthy for the overall ecosystem.For more in-depth coverage on specific industries, please refer to our notes on Nvidia, the hyperscalers, semiconductor equipment companies, TSMC, Apple and networking, utilities, European utilities, HVAC, and industrials.

**DeepSeek's R1 Launch Shows There Are No Moats in Large Language Model Space** Malik Ahmed Khan, CFA,Equity Analyst,27 Jan 2025

DeepSeek, a Chinese artificial intelligence company, released its open-source reasoning model, R1, earlier this month. The model's capabilities roughly match those of advanced models by OpenAI, Anthropic, and Google while having materially lower training costs. Why it matters: R1's impressive performance/cost dynamics have raised investor concerns about the necessity of the billions of dollars of capital expenditures by large US tech companies so far and the billions more they are planning to spend on generative AI in the coming years. R1's launch and the dramatically lower pricing, which is more than 90% below OpenAI's latest reasoning model, go hand-in-hand with our broader "commodification of complements" view of the large language model space. We believe that as the price of LLMs (the complementary good) goes down, the value and usage of the public cloud vendors' primary good, cloud infrastructure, actually increases. To that end, we believe Amazon, Microsoft, and Google actually benefit from reduced LLM pricing in the long run. The bottom line: We maintain our fair value estimates for Microsoft ($490), Amazon ($200), and Alphabet ($220) and see these wide-moat firms benefiting from a commodified LLM layer, with increased spending on AI creating tailwinds for their public cloud businesses. While we expect capital expenditures by the public cloud vendors to remain elevated in the near term, we see these expenditures as primarily geared toward serving generative AI demand, which should flourish with lower pricing of LLMs, as opposed to training leading-edge models. At the same time, we expect these large US tech companies to replicate some of the AI techniques that DeepSeek leveraged to drive the cost of R1 down, as a means of reducing their own model training and inference costs, potentially lowering medium- to long-term capital expenditures.

**Amazon: Teamsters Strike Unlikely to Have Meaningful Impact** Dan Romanoff, CPA,Senior Equity Analyst,19 Dec 2024

We do not expect a material impact on Amazon's e-commerce operations after thousands of workers went on strike on Dec. 19. The shares are up modestly intraday, reinforcing the notion that this is not likely to have a negative impact. Amazon continues to drive efficiencies throughout its network, which helps lower costs and improve delivery speeds and ultimately drives increased purchases by Prime members. Our fair value estimate remains at $200, leaving the shares overvalued, in our view. Shares of nearly all companies in our narrow software coverage have been extremely strong since September on expectations for interest-rate cuts by the Federal Reserve. Fundamentals have not changed. While we have not changed our discount rate, a 100-basis-point reduction would result in a fair value estimate increase of at least 20%.At the time of writing, the strike involved seven facilities in New York, California, Illinois, and Georgia. We view this as part of a long-running dispute between Amazon and the Teamsters Union, which seemingly chose the days leading up to Christmas to strike to inflict maximum discomfort on consumers. Amazon employs more than 1.5 million people globally, the vast majority of whom are involved in warehouse and delivery. Approximately 1% are represented by unions. Amazon increased wages for warehouse and delivery employees in September by about 7%. These employees are eligible for typical benefits, including healthcare and 401(k) plans.The company does not recognize the Teamsters Union as representing any Amazon workers. The Teamsters have been trying to unionize Amazon for years. Amazon has objected to at least one successful unionization vote in the US, alleging National Labor Relations Board bias, and also sued in federal court to challenge the constitutionality of the NLRB itself. We think unionization is generally bad for the firm, as it tends to increase wages and reduce efficiency.

**Amazon Earnings: AWS and Margins Shine Brightest in a Quarter With Many Bright Spots** Dan Romanoff, CPA,Senior Equity Analyst,1 Nov 2024

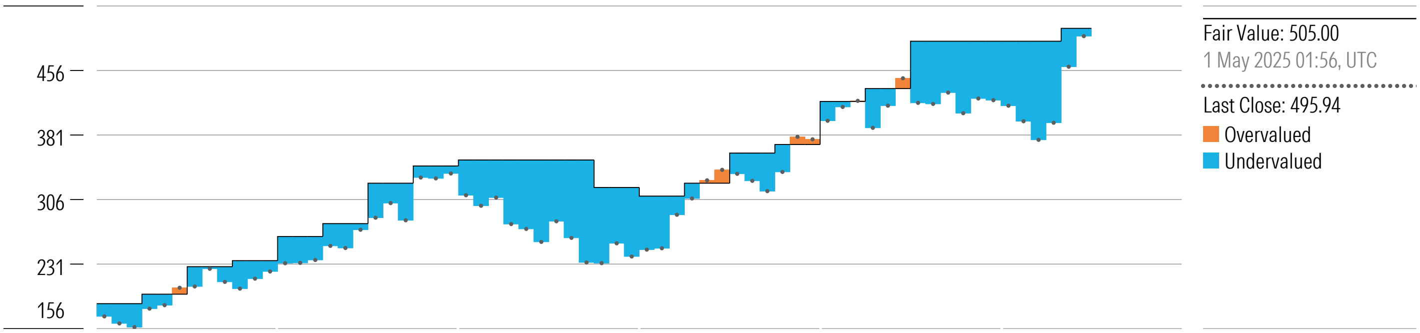
We are raising our fair value estimate for wide-moat Amazon to $200 per share from $195 after the company reported solid third-quarter results. The firm's fourth-quarter outlook was generally aligned with our estimates. Changes to our model are minor but center around continued near-term profitability improvements. Overall results are pretty consistent with recent quarters. Amazon continues to gain efficiencies throughout the network, which helps lower costs and improve delivery speeds and ultimately drives increased purchases by Prime members. We now see shares as fairly valued, after a strong run since early August.Retail demand trends remain unchanged over the last 18 months, with e-commerce performing well but showing signs of consumer stress. Third-quarter revenue grew 11% year over year, as reported to $158.9 billion, compared with the top end of guidance at $158.5 billion. Relative to our estimates, online stores, subscription services, and AWS performed best, while third-party seller services and advertising modestly lagged. The two key segments for long-term growth, AWS and advertising, both expanded 19% year over year, as reported. Amazon's advertising growth continues to outpace its large internet peers, while AWS' growth accelerated sequentially for the fifth straight quarter.Margins have been consistently stronger than anticipated over the past year or two, and we continue to believe there is room for expansion as the multihub strategy continues to unlock efficiencies. Third-quarter profitability was outstanding, with operating profit at $17.4 billion, compared with the high end of guidance at $15.0 billion. This resulted in an operating margin of 11.0%, compared with 7.8% a year ago. Management's long-term goal is to have international operating margins equal to North American margins. International posted positive operating profits for the third straight quarter, which is a positive indicator in our view. AWS profitability was very strong.

Morningstar Equity Analyst Report | Report as of 27 Jun 2025 23:43, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS Page 13 of 24

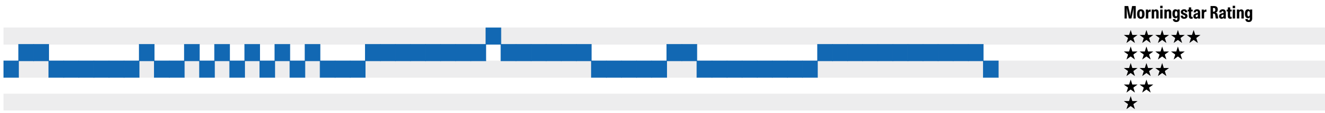
# Amazon.com Inc AMZN ★★★ 27 Jun 2025 21:26, UTC

## Competitors Price vs. Fair Value

### Microsoft Corp MSFT

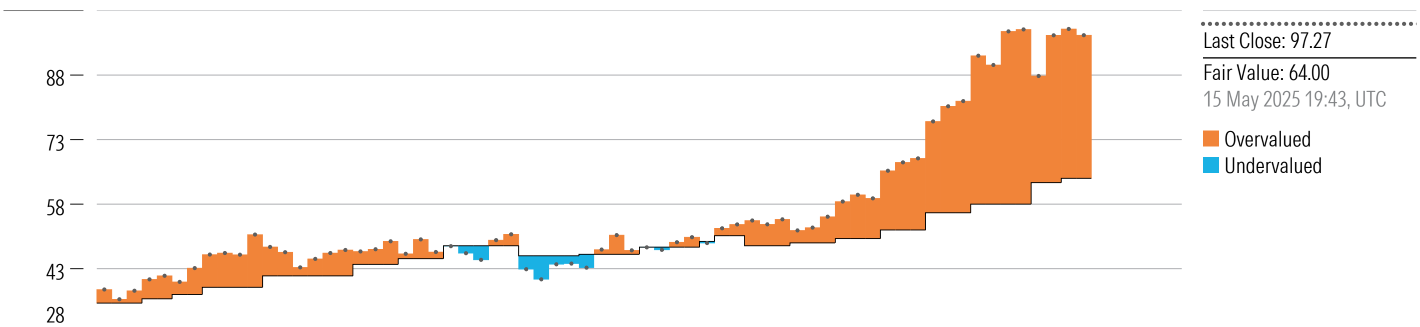



| | 2020 | 2021 | 2022 | 2023 | 2024 | YTD |
|---|---|---|---|---|---|---|
| Price/Fair Value | 0.95 | 0.97 | 0.75 | 1.02 | 0.86 | 0.98 |
| Total Return % | 42.37 | 52.24 | -27.94 | 57.96 | 12.91 | 18.05 |

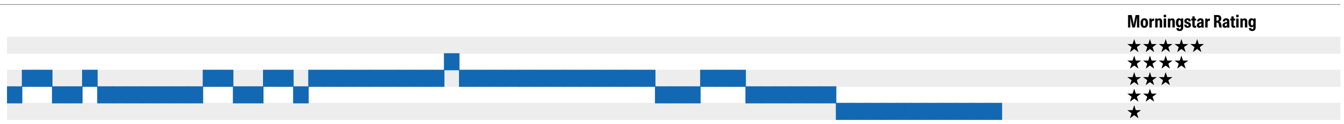



Total Return % as of 27 Jun 2025. Last Close as of 27 Jun 2025. Fair Value as of 1 May 2025 01:56, UTC.

### Walmart Inc WMT




| | 2020 | 2021 | 2022 | 2023 | 2024 | YTD |
|---|---|---|---|---|---|---|
| Price/Fair Value | 1.16 | 1.00 | 1.02 | 1.07 | 1.56 | 1.52 |
| Total Return % | 23.12 | 1.90 | -0.46 | 12.79 | 73.51 | 8.18 |



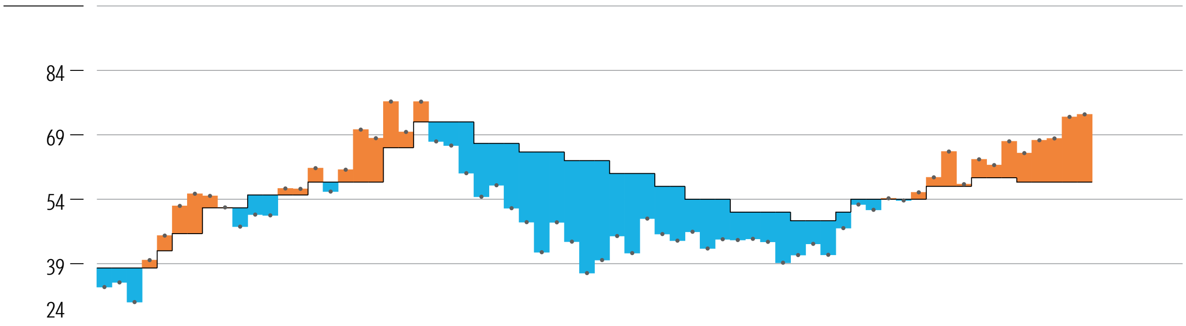

Total Return % as of 27 Jun 2025. Last Close as of 27 Jun 2025. Fair Value as of 15 May 2025 19:43, UTC.

Morningstar Equity Analyst Report | Report as of 27 Jun 2025 23:43, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS

# Amazon.com Inc AMZN ★★★ 27 Jun 2025 21:26, UTC

## Competitors Price vs. Fair Value

### eBay Inc EBAY

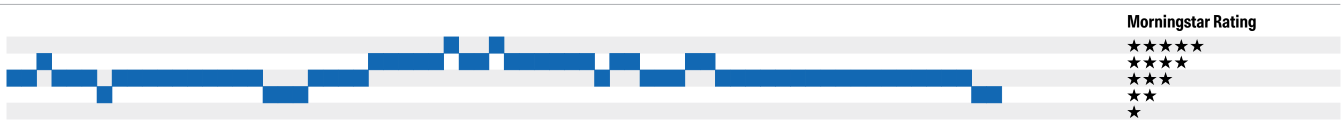



Last Close: 73.76

Fair Value: 58.00
28 Feb 2025 15:21, UTC

Overvalued
Undervalued

| | 2020 | 2021 | 2022 | 2023 | 2024 | YTD | |
|---|---|---|---|---|---|---|---|
| | 0.91 | 0.92 | 0.69 | 0.89 | 1.05 | 1.27 | Price/Fair Value |
| | 40.93 | 33.77 | -36.32 | 7.60 | 44.50 | 20.00 | Total Return % |




Total Return % as of 27 Jun 2025. Last Close as of 27 Jun 2025. Fair Value as of 28 Feb 2025 15:21, UTC.

Morningstar Equity Analyst Report | Report as of 27 Jun 2025 23:43, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS

# Amazon.com Inc AMZN ★★★ 27 Jun 2025 21:26, UTC

| Last Price | Fair Value Estimate | Price/FVE | Market Cap | Economic Moat™ | Equity Style Box | Uncertainty | Capital Allocation | ESG Risk Rating Assessment[1] |
|---|---|---|---|---|---|---|---|---|
| 223.30 USD<br>27 Jun 2025 | 240.00 USD<br>7 Feb 2025 06:46, UTC | 0.93 | 2.37 USD Tril<br>27 Jun 2025 | Wide | Large Blend | Medium | Exemplary | 4 Jun 2025 05:00, UTC |

## Morningstar Valuation Model Summary

| **Financials** as of 01 May 2025 | Actual | | | Forecast | | | | |
|---|---|---|---|---|---|---|---|---|
| **Fiscal Year,** ends 31 Dec | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| Revenue (USD Mil) | 513,983 | 574,785 | 637,959 | 695,445 | 763,161 | 838,262 | 919,137 | 1,006,031 |
| Operating Income (USD Mil) | 12,248 | 36,852 | 68,593 | 75,249 | 92,067 | 102,603 | 114,433 | 127,364 |
| EBITDA (USD Mil) | 53,709 | 85,515 | 155,176 | 161,832 | 220,278 | 232,282 | 244,582 | 254,626 |
| Adjusted EBITDA (USD Mil) | 53,709 | 85,515 | 155,176 | 161,832 | 220,278 | 232,282 | 244,582 | 254,626 |
| Net Income (USD Mil) | -2,722 | 30,425 | 59,248 | 64,166 | 75,748 | 82,911 | 92,290 | 103,319 |
| Adjusted Net Income (USD Mil) | -2,722 | 30,425 | 59,248 | 64,166 | 75,748 | 82,911 | 92,290 | 103,319 |
| Free Cash Flow To The Firm (USD Mil) | 11,223 | 42,662 | 90,868 | 42,235 | 101,332 | 109,709 | 118,927 | 126,674 |
| Weighted Average Diluted Shares Outstanding (Bil) | 10 | 10 | 11 | 11 | 11 | 11 | 11 | 11 |
| Earnings Per Share (Diluted) (USD) | -0.27 | 2.90 | 5.53 | 5.92 | 6.91 | 7.56 | 8.42 | 9.43 |
| Adjusted Earnings Per Share (Diluted) (USD) | -0.27 | 2.90 | 5.53 | 5.92 | 6.91 | 7.56 | 8.42 | 9.43 |
| Dividends Per Share (USD) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

| **Margins & Returns** as of 01 May 2025 | | Actual | | | Forecast | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 3 Year Avg | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 5 Year Avg |
| Operating Margin % | 6.5 | 2.4 | 6.4 | 10.8 | 10.8 | 12.1 | 12.2 | 12.5 | 12.7 | 12.0 |
| EBITDA Margin % | — | 10.5 | 14.9 | 24.3 | 23.3 | 28.9 | 27.7 | 26.6 | 25.3 | — |
| Adjusted EBITDA Margin % | — | 10.5 | 14.9 | 24.3 | 23.3 | 28.9 | 27.7 | 26.6 | 25.3 | 26.4 |
| Net Margin % | 4.7 | -0.5 | 5.3 | 9.3 | 9.2 | 9.9 | 9.9 | 10.0 | 10.3 | 9.9 |
| Adjusted Net Margin % | 4.7 | -0.5 | 5.3 | 9.3 | 9.2 | 9.9 | 9.9 | 10.0 | 10.3 | 9.9 |
| Free Cash Flow To The Firm Margin % | 8.0 | 2.2 | 7.4 | 14.2 | 6.1 | 13.3 | 13.1 | 12.9 | 12.6 | 11.6 |

| **Growth & Ratios** as of 01 May 2025 | | Actual | | | Forecast | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 3 Year CAGR | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 5 Year CAGR |
| Revenue Growth % | 10.7 | 9.4 | 11.8 | 11.0 | 9.0 | 9.7 | 9.8 | 9.7 | 9.5 | 9.5 |
| Operating Income Growth % | 40.2 | -50.8 | 200.9 | 86.1 | 9.7 | 22.4 | 11.4 | 11.5 | 11.3 | 13.2 |
| EBITDA Growth % | 43.8 | -9.2 | 59.2 | 81.5 | 4.3 | 36.1 | 5.5 | 5.3 | 4.1 | 11.1 |
| Adjusted EBITDA Growth % | 37.9 | -9.2 | 59.2 | 81.5 | 4.3 | 36.1 | 5.5 | 5.3 | 4.1 | 10.4 |
| Earnings Per Share Growth % | 19.5 | -108.2 | -1185.5 | 90.6 | 7.1 | 16.8 | 9.5 | 11.3 | 12.0 | 11.3 |
| Adjusted Earnings Per Share Growth % | 19.5 | -108.2 | -1185.5 | 90.6 | 7.1 | 16.8 | 9.5 | 11.3 | 12.0 | 11.3 |

| **Valuation** as of 01 May 2025 | Actual | | | Forecast | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| Price/Earning | -311.1 | 52.4 | 39.7 | 37.7 | 32.3 | 29.5 | 26.5 | 23.7 |
| Price/Sales | 1.7 | 2.7 | 3.6 | 3.4 | 3.1 | 2.8 | 2.6 | 2.4 |
| Price/Book | 5.9 | 7.9 | 8.2 | 6.9 | 5.7 | 4.8 | 4.1 | 3.5 |
| Price/Cash Flow | — | — | — | — | — | — | — | — |
| EV/EBITDA | 17.3 | 19.2 | 15.3 | 14.9 | 10.9 | 10.4 | 9.9 | 9.5 |
| EV/EBIT | 75.6 | 44.6 | 34.6 | 32.0 | 26.2 | 23.5 | 21.1 | 18.9 |
| Dividend Yield % | — | — | — | — | — | — | — | — |
| Dividend Payout % | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Free Cash Flow Yield % | — | — | — | — | — | — | — | — |

| **Operating Performance / Profitability** as of 01 May 2025 | Actual | | | Forecast | | | | |
|---|---|---|---|---|---|---|---|---|
| **Fiscal Year,** ends 31 Dec | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| ROA % | -0.6 | 5.8 | 9.5 | 10.4 | 10.7 | 10.3 | 10.0 | 9.8 |
| ROE % | -1.9 | 15.1 | 20.7 | 18.3 | 17.8 | 16.3 | 15.4 | 14.7 |
| ROIC % | 12.5 | 15.5 | 17.8 | 16.2 | 16.3 | 17.0 | 18.0 | 19.1 |

Morningstar Equity Analyst Report | Report as of 27 Jun 2025 23:43, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS Page 16 of 24

# Amazon.com Inc AMZN ★★★ 27 Jun 2025 21:26, UTC

| Last Price | Fair Value Estimate | Price/FVE | Market Cap | Economic Moat™ | Equity Style Box | Uncertainty | Capital Allocation | ESG Risk Rating Assessment[1] |
|---|---|---|---|---|---|---|---|---|
| 223.30 USD<br>27 Jun 2025 | 240.00 USD<br>7 Feb 2025 06:46, UTC | 0.93 | 2.37 USD Tril<br>27 Jun 2025 | Wide | Large Blend | Medium | Exemplary | 4 Jun 2025 05:00, UTC |

**Financial Leverage** (Reporting Currency)

| Fiscal Year, ends 31 Dec | Actual 2022 | Actual 2023 | Actual 2024 | Forecast 2025 | Forecast 2026 | Forecast 2027 | Forecast 2028 | Forecast 2029 |
|---|---|---|---|---|---|---|---|---|
| Debt/Capital % | 14.1 | 8.0 | 5.4 | 1.7 | 1.4 | 1.1 | 0.9 | 0.8 |
| Assets/Equity | 3.2 | 2.6 | 2.2 | 1.8 | 1.7 | 1.6 | 1.5 | 1.5 |
| Net Debt/EBITDA | 1.3 | 0.6 | 0.2 | -0.1 | -0.3 | -0.6 | -0.9 | -1.2 |
| Total Debt/EBITDA | 2.6 | 1.6 | 0.8 | 0.3 | 0.2 | 0.2 | 0.1 | 0.1 |
| EBITDA/ Net Interest Expense | 3.0 | -121.3 | -7,389.3 | -27.1 | -57.7 | -99.0 | -102.3 | -74.4 |

**Forecast Revisions** as of 1 May 2025

| Prior data as of 7 Feb 2025 | 2025 Current | 2025 Prior | 2026 Current | 2026 Prior | 2027 Current | 2027 Prior |
|---|---|---|---|---|---|---|
| Fair Value Estimate Change (Trading Currency) | 240.00 | 240.11 | — | — | — | — |
| Revenue (USD Mil) | 695,445 | 701,594 | 763,161 | 774,982 | 838,262 | 857,617 |
| Operating Income (USD Mil) | 75,249 | 81,066 | 92,067 | 93,491 | 102,603 | 104,972 |
| EBITDA (USD Mil) | 161,832 | 168,415 | 220,278 | 214,388 | 232,282 | 218,178 |
| Net Income (USD Mil) | 64,166 | 66,814 | 75,748 | 76,919 | 82,911 | 84,825 |
| Earnings Per Share (Diluted) (USD) | 5.92 | 6.16 | 6.91 | 7.02 | 7.56 | 7.74 |
| Adjusted Earnings Per Share (Diluted) (USD) | 5.92 | 6.16 | 6.91 | 7.02 | 7.56 | 7.74 |
| Dividends Per Share (USD) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

**Key Valuation Drivers** as of 01 May 2025

| | |
|---|---|
| Cost of Equity % | 9.0 |
| Pre-Tax Cost of Debt % | 5.5 |
| Weighted Average Cost of Capital % | 8.7 |
| Long-Run Tax Rate % | 21.0 |
| Stage II EBI Growth Rate % | 8.8 |
| Stage II Investment Rate % | -5.3 |
| Perpetuity Year | 20 |

Additional estimates and scenarios available for download at https://pitchbook.com/.

**Discounted Cash Flow Valuation** as of 01 May 2025

| | USD Mil |
|---|---|
| Present Value Stage I | 777,712 |
| Present Value Stage II | 775,535 |
| Present Value Stage III | 927,207 |
| **Total Firm Value** | **2,480,455** |
| Cash and Equivalents | 101,202 |
| Debt | 52,623 |
| Other Adjustments | 0 |
| **Equity Value** | **2,529,034** |
| Projected Diluted Shares | 11 |
| **Fair Value per Share** (USD) | **240.00** |

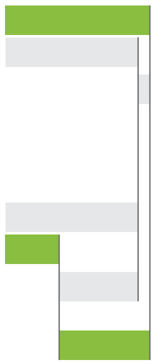
Morningstar Equity Analyst Report | Report as of 27 Jun 2025 23:43, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS

# Amazon.com Inc AMZN ★★★ 27 Jun 2025 21:26, UTC

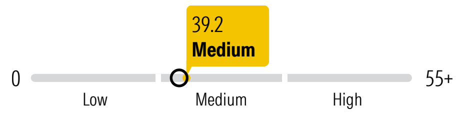
| Last Price | Fair Value Estimate | Price/FVE | Market Cap | Economic Moat™ | Equity Style Box | Uncertainty | Capital Allocation | ESG Risk Rating Assessment[1] |
|---|---|---|---|---|---|---|---|---|
| 223.30 USD<br>27 Jun 2025 | 240.00 USD<br>7 Feb 2025 06:46, UTC | 0.93 | 2.37 USD Tril<br>27 Jun 2025 | Wide | Large Blend | Medium | Exemplary | 4 Jun 2025 05:00, UTC |

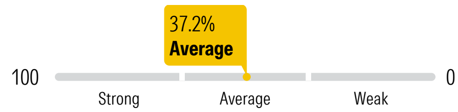
## ESG Risk Rating Breakdown

| Exposure | |
|---|---|
| Company Exposure[1] | 39.2 |
| – Manageable Risk | 36.0 |
| **Unmanageable Risk[2]** | **3.2** |
| **Management** | |
| Manageable Risk | 36.0 |
| – Managed Risk[3] | 13.4 |
| **Management Gap[4]** | **22.6** |
| **Overall Unmanaged Risk** | **25.8** |



● Subject ○ Subindustry (38.0)

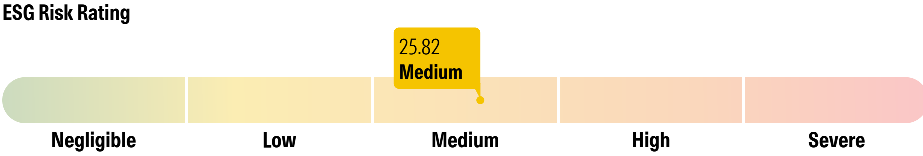



- Exposure represents a company's vulnerability to ESG risks driven by their business model
- Exposure is assessed at the Subindustry level and then specified at the company level
- Scoring ranges from 0-55+ with categories of low, medium, and high-risk exposure

- Management measures a company's ability to manage ESG risks through its commitments and actions
- Management assesses a company's efficiency on ESG programs, practices, and policies
- Management score ranges from 0-100% showing how much manageable risk a company is managing

## ESG Risk Rating




ESG Risk Ratings measure the degree to which a company's value is impacted by environmental, social, and governance risks, by evaluating the company's ability to manage the ESG risks it faces.

1. A company's Exposure to material ESG issues 2. Unmanageable Risk refers to risks that are inherent to a particular business model that cannot be managed by programs or initiatives 3. Managed Risk = Manageable Risk multiplied by a Management score of 37.2% 4. Management Gap assesses risks that are not managed, but are considered manageable 5. ESG Risk Rating Assessment = Overall Unmanaged Risk = Management Gap plus Unmanageable Risk

## ESG Risk Rating Assessment[5]

ESG Risk Rating is of Jun 04, 2025. Highest Controversy Level is as of Jun 08, 2025. Sustainalytics Subindustry: Online and Direct Marketing Retail. Sustainalytics provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainalytics' scores for the company. For the most up to date rating and more information, please visit: sustainalytics.com/esg-ratings/.

## Peer Analysis 04 Jun 2025

Peers are selected from the company's Sustainalytics-defined Subindustry and are displayed based on the closest market cap values

| Company Name | Exposure | Management | ESG Risk Rating |
|---|---|---|---|
| **Amazon.com Inc** | 39.2 \| Medium | 37.2 \| Average | 25.8 \| Medium |
| Microsoft Corp | 34.9 \| Low | 54.0 \| Strong | 17.4 \| Low |
| Walmart Inc | 45.4 \| Medium | 48.1 \| Average | 25.2 \| Medium |
| eBay Inc | 37.1 \| Medium | 62.9 \| Strong | 15.4 \| Low |
| Etsy Inc | 32.6 \| Low | 56.0 \| Strong | 15.5 \| Low |

Morningstar Equity Analyst Report | Report as of 27 Jun 2025 23:43, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS

# Appendix
## Historical Morningstar Rating

**Amazon.com Inc** AMZN 27 Jun 2025 21:26, UTC

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Dec 2025 | Nov 2025 | Oct 2025 | Sep 2025 | Aug 2025 | Jul 2025 | Jun 2025 | May 2025 | Apr 2025 | Mar 2025 | Feb 2025 | Jan 2025 |
| — | — | — | — | — | — | ★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★ |
| Dec 2024 | Nov 2024 | Oct 2024 | Sep 2024 | Aug 2024 | Jul 2024 | Jun 2024 | May 2024 | Apr 2024 | Mar 2024 | Feb 2024 | Jan 2024 |
| ★★ | ★★★ | ★★★ | ★★★ | ★★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★ |
| Dec 2023 | Nov 2023 | Oct 2023 | Sep 2023 | Aug 2023 | Jul 2023 | Jun 2023 | May 2023 | Apr 2023 | Mar 2023 | Feb 2023 | Jan 2023 |
| ★★★ | ★★★ | ★★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ |
| Dec 2022 | Nov 2022 | Oct 2022 | Sep 2022 | Aug 2022 | Jul 2022 | Jun 2022 | May 2022 | Apr 2022 | Mar 2022 | Feb 2022 | Jan 2022 |
| ★★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★★ | ★★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ |
| Dec 2021 | Nov 2021 | Oct 2021 | Sep 2021 | Aug 2021 | Jul 2021 | Jun 2021 | May 2021 | Apr 2021 | Mar 2021 | Feb 2021 | Jan 2021 |
| ★★★★ | ★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★ |
| Dec 2020 | Nov 2020 | Oct 2020 | Sep 2020 | Aug 2020 | Jul 2020 | Jun 2020 | May 2020 | Apr 2020 | Mar 2020 | Feb 2020 | Jan 2020 |
| ★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★ | ★★★★ | ★★★★ | ★★★★ |

**Microsoft Corp** MSFT 27 Jun 2025 21:23, UTC

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Dec 2025 | Nov 2025 | Oct 2025 | Sep 2025 | Aug 2025 | Jul 2025 | Jun 2025 | May 2025 | Apr 2025 | Mar 2025 | Feb 2025 | Jan 2025 |
| — | — | — | — | — | — | ★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ | ★★★★ |
| Dec 2024 | Nov 2024 | Oct 2024 | Sep 2024 | Aug 2024 | Jul 2024 | Jun 2024 | May 2024 | Apr 2024 | Mar 2024 | Feb 2024 | Jan 2024 |
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**Walmart Inc** WMT 27 Jun 2025 21:28, UTC

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Morningstar Equity Analyst Report | Report as of 27 Jun 2025 23:43, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS Page 19 of 24

**eBay Inc** EBAY 27 Jun 2025 21:29, UTC

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# Research Methodology for Valuing Companies

**Overview**

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, indepth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our singlepoint star rating.

**1. Economic Moat**

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

**2. Estimated Fair Value**

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

**Stage I: Explicit Forecast**

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in workingcapital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

**Stage II: Fade**

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

**Stage III: Perpetuity**

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

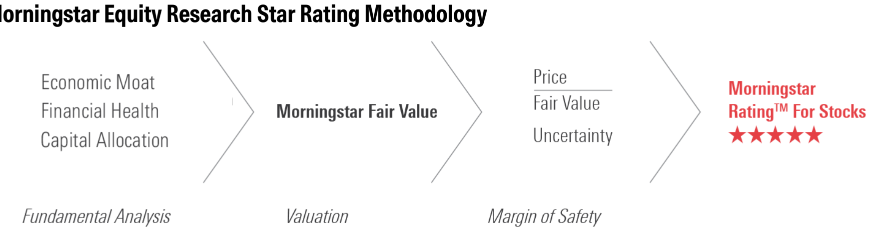
Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

**3. Uncertainty Around That Fair Value Estimate**

Morningstar's Uncertainty Rating is designed to capture the range of potential outcomes for a company's intrinsic value. This rating is used to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating is aimed at identifying the confidence we should have in assigning a fair value estimate for a given stock.

Our Uncertainty Rating is meant to take into account anything that can increase the potential dispersion of future

**Morningstar Equity Research Star Rating Methodology**



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# Research Methodology for Valuing Companies

outcomes for the intrinsic value of a company, and anything that can affect our ability to accurately predict these outcomes. The rating begins with a suggested rating produced by a quantitative process based on the trailing 12-month standard deviation of daily stock returns. An analyst overlay is then applied, with analysts using the suggested rating, historical rating data, and their own knowledge of the company to inform them as they make the final Uncertainty Rating decision. Ultimately, the rating decision rests with the analyst. Analysts take into account many characteristics when making their final decision, including cyclical factors, operational and financial factors such as leverage, company-specific events, ESG risks, and anything else that might increase the potential dispersion of future outcomes and our ability to estimate those outcomes.

Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the potential dispersion of outcomes, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the Uncertainty Rating provides guidance in portfolio construction based on risk tolerance.

Our Uncertainty Ratings are: Low, Medium, High, Very High, and Extreme.

| | Margin of Safety | |
|---|---|---|
| Qualitative Analysis Uncertainty Ratings | ★★★★★Rating | ★Rating |
| Low | 20% Discount | 25% Premium |
| Medium | 30% Discount | 35% Premium |
| High | 40% Discount | 55% Premium |
| Very High | 50% Discount | 75% Premium |
| Extreme | 75% Discount | 300% Premium |

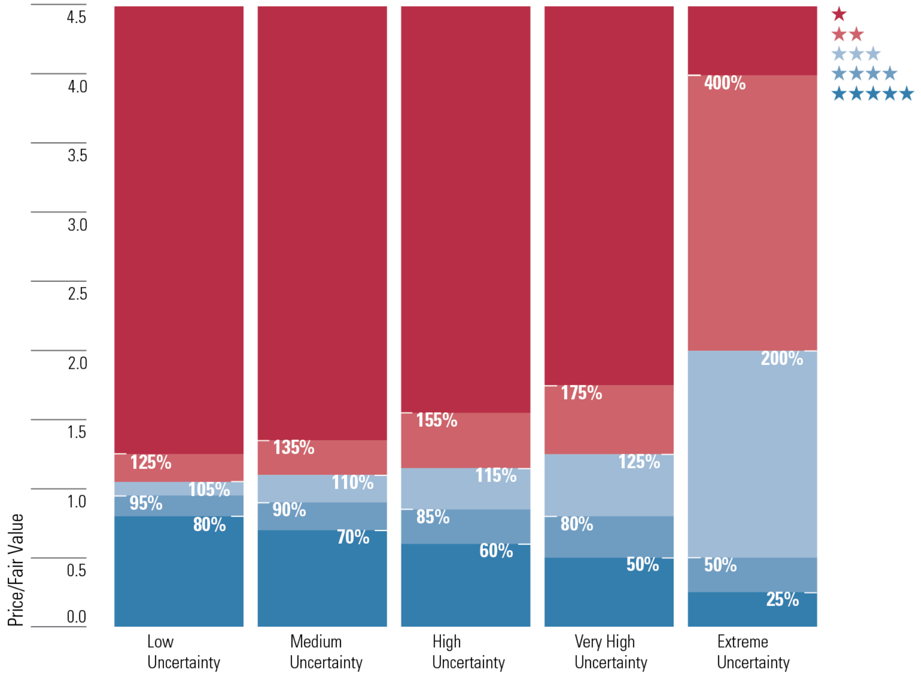
Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly, when a stock hits 1 star, we expect there is a 75% chance that the intrinsic value of that stock lies below the current market price.

**4. Market Price**

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com

**Morningstar Equity Research Star Rating Methodology**




**Morningstar Star Rating for Stocks**

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multi-year time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

**Other Definitions**

**Last Price:** Price of the stock as of the close of the market of the last trading day before date of the report.

**Capital Allocation Rating:** Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments,

# Research Methodology for Valuing Companies

and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

**Capital Allocation Rating:** Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

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**Sustainalytics ESG Risk Rating Assessment:** The ESG Risk Rating Assessment is provided by Sustainalytics; a Morningstar company.

Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environment, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/

Ratings should not be used as the sole basis in evaluating a company or security. Ratings involve unknown risks and uncertainties which may cause our expectations not to occur or to differ significantly from what was expected and should not be considered an offer or solicitation to buy or sell a security.

**Risk Warning**

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