Buy Amazon.com

David Gardner | October 18, 2018 | Buy Recommendation

CURRENT PRICE: AMZN $ 2773.63 ↑ $ 59.81 (2.2%)

Here's a blast from the past for you:

> *Quick quiz: What "dot-com" is actually up 40% this year while the Nasdaq is down 30%?*

> *Answer: My recommendation for this month, Amazon.com.*

This was the opening from my original *Stock Advisor* recommendation of **Amazon** (NASDAQ: AMZN), back in September 2002. To say that Amazon has been wildly profitable for investors who have held all this time is an understatement — that original position is up over 11,000%. In fact, it grew so fast that when I recommended Amazon a second time in December 2010, with that first position up more than 1,000%, some investors might have felt like Amazon was a missed opportunity. And perhaps it was — members who bought after that second recommendation are up about *900%*.

This month marks my 200th recommendation for *Stock Advisor* — and this service's 400th overall when you add in all my brother Tom's monthly selections — so I'm feeling a bit reflective. But don't take this for mere nostalgia. Amazon is an object lesson in two Foolish investing principles: letting your winners run and adding to them over time. Could the investors of late 2010 have known Amazon's stock would do almost as well over the next eight years as it had over the previous eight? Yet we did know it was a powerful innovator whose future was still exciting.

Returning to that quote from 2002, I can't help but note that while the Nasdaq thankfully isn't down 30% this year, Amazon is up again. How much? About 50% year to date. So after another eight-year pause, I'm back with my third recommendation. While I would never promise another 10-bagger, I am confident that, once again, it's a very good time to buy Amazon.

AMAZON IN 1 MINUTE

WHAT IT DOES

Amazon.com is virtually synonymous with online retail, selling its own inventory while also offering third-party sales and fulfillment. It also has fast-growing operations in subscriptions, advertising, and Web hosting.

WHY YOU SHOULD BUY

- Amazon's core retail business, despite its size, continues to grow at an impressive pace with no end in sight.
- Ancillary businesses like Amazon Web Services, third-party retail, subscriptions, and advertising are growing much faster — and are far more profitable.
- Jeff Bezos is one of this century's great visionaries, and there's no end of opportunity for Amazon to leverage its world-class fulfillment capabilities.

BUYER'S GUIDE

- **Industry:** Retail
- **Size:** Large Cap
- **Region:** Global
- **Recent Price:** $1,819.96
- **Allocation:** Amazon is an *SA* Starter Stock, meaning we think it can anchor any member's portfolio. Even so, we don't recommend buying too much of any stock. Many Fools choose to start with a small amount — 2%

Dominance From A to Z

I don't think I need to introduce Amazon to any of you. It is one of the world's most recognized companies, known not just as the granddaddy of online retail, but also increasingly recognized for services like Prime Video; devices like Echo, Alexa, and Fire TV; and its juggernaut Web hosting business, Amazon Web Services (AWS). It even has brick-and-mortar sales through its acquisition of another venerable *Stock Advisor* company, Whole Foods Markets.

Today, Amazon has a market capitalization of almost $890 billion, making it the second-largest company in the world. While that makes another 11,000% gain from here a stretch, there's no reason to think there's any near-term cap on the company's growth. The genius of the company and its founder and CEO, Jeff Bezos, is to use technology, efficiency, a relentless focus on customers — and, at this point, sheer scale — to enter and eventually dominate new business areas.

When I recommended Amazon back in 2002, the company still made half of its revenue from selling just books, music, and DVDs. Now *direct retail overall* represents a mere 61% of revenue. Third-party retail sales, physical store sales, AWS, subscriptions to Prime, and advertising make up the rest of the $208 billion in revenue the company has brought in over the past year. So while Amazon can continue to eat into the approximately $23 trillion global market for retail as it expands its reach, it will also continue to build its ancillary businesses. And they will reinforce each other as, say, Alexa devices and Prime subscriptions make retail fulfillment quicker and easier than ever.

of their portfolio's overall value, for instance — and add a little at a time.

KEY DATA

- **Headquarters:** Seattle, Wash.
- **Website:** Amazon investor relations
- **Market Cap:** $887.7 billion
- **Cash/Debt:** $27.1 billion / $45.8 billion
- **Revenue (TTM):** $208.1 billion
- **Earnings (TTM):** $6.3 billion
- **Revenue (2015/'16/'17):** $107.0 billion / $136.0 billion / $177.9 billion
- **Earnings (2015/'16/'17):** $0.6 billion / $2.4 billion / $3.0 billion

Save AMZN for Later

Success With an Asterisk

Of course, I can't look back on 200 *Stock Advisor* recommendations without acknowledging some pretty big flops along the way. And Amazon is emblematic of that, too. Remember the Fire Phone, the company's bid to unseat iPhone and Android smartphones? How about Groupon clone Amazon Local, or travel site Destinations? There was Local Register, Amazon's Square-like take on mobile payment, and more. This is evidence that Amazon isn't poised to take over the world — but it's also one of my favorite things about the company. Its willingness to innovate, think long-term, make bets, and acknowledge failure increases my comfort as an investor.

When the company shutters some experiment, it inevitably says it learned something and hopes to apply those lessons in the future. That's not empty rhetoric. 2014's Fire Phone may be one of the company's highest-profile flops. The common wisdom when it was discontinued was that Amazon

GET MORE INFO

Talk About AMZN

Talk about how AMZN fits into *SA* here

Hey Jeff! David knew he might bump into Amazon CEO Jeff Bezos, so he worked on a quick line to greet him. Click to hear what happened next in David's latest Rule Breaker Investing podcast (around 34:00)!

Add AMZN to your Favorites at the bottom of this page and you will:

- See why Amazon scores a 4 on our unique 25-point Risk Rating.
- See how you can tell if this investment is going right — or wrong.

should stick to retail and stay away from devices. Yet today, Amazon is one of the world's most successful device companies, and it pioneered the smart-speaker category. That gives me confidence in the company's growth initiatives.

Or take Amazon Web Services. AWS provided "just" $17.5 billion in revenue last year, yet it was also responsible for the company's entire operating income. Its 25% operating margin is a far cry from the 2.7% operating margin for North American retail operations (and the loss for international operations).

Core online store sales were up an impressive 18.5% in 2017. But third-party seller services were up 39%, subscription services soared 52%, and AWS rose 43%. Amazon has famously eschewed the pursuit of profits in favor of growth. But even as it shrugs off thin margins on its North American retail sales and losses elsewhere, those profits are growing — and will continue to grow well in excess of sales. We think earnings per share can top a 50% annual growth rate over the next year, which makes the company's sky-high price-to-earnings ratio not only justifiable, but downright attractive.

Risks and When We'd Sell

What makes Amazon so attractive is its potential to improve margins. Sales are massive, and if more of them fall to the bottom line, profits could be virtually limitless. But to get there, the company has to keep growing its higher-margin businesses like advertising, subscriptions, and AWS. It may need to tap into new markets like health care (particularly pharmacy). Core retail operations can continue to scale, but investors are counting on Amazon's best-in-class fulfillment capabilities to power higher-margin businesses. Not every experiment will be a home run like AWS, but if the company can't keep growing new concepts, that high P/E will prove to be *too* high.

The Foolish Bottom Line

Jeff Bezos remains one of the great business visionaries of this century. That doesn't always make everyone comfortable; an article last year in Bezos' own *Washington Post* suggested the company could eventually become a dangerous monopoly in need of antitrust remedies. But we're a long way from any such threat. Amazon's sales are still only about 40% of **Wal-Mart**'s (NYSE: WMT), and its business more diverse. Rather, such hand-wringing underscores the company's continuing trajectory. It is big today, yes, but all indications are that it will be much bigger in the future.

Karl Thiel contributed to this report.

Choose What You Want to Do With This Stock

By adding Amazon to your Favorites, you will be notified whenever our team recommends buying *or selling* Amazon.

John Mackey, CEO of Whole Foods Market, an Amazon subsidiary, is a member of The Motley Fool's board of directors. David Gardner owns shares of Amazon and Apple. Tom Gardner owns shares of Square. The Motley Fool owns shares of Amazon, Apple, and Square and has the following options: long January 2020 $150 calls on Apple, short January 2020 $155 calls on Apple, and short January 2019 $80 calls on Square. The Motley Fool has a disclosure policy.

Important Reminder! Access all of David Gardner's top stock recommendations

|
| | |