Carleton University – BUSI 4502

Amazon.com, Inc.

Initial Research - SAV

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April 3, 2018

Amazon.com Inc.
AMZN – NYSE

Recommendation: **BUY @ 1,447.34** | ***Analyst***: BUSI 4502 Class

Target Price: **$1,983.25** | Report Date: March 30, 2018

UPDATE REPORT – OUTLOOK: NEUTRAL

Source: Yahoo Finance

Security Information:
Market Cap: $768,041 million
Shares O/S: 484.11 million (484,107,183)
Float: $567,813 million
Float O/S: 357.91 million (Insiders own ~15.05%)
52 Week Range: $1,617.54 - $884.49
BVPS: $56.204
Tangible BVPS: $99.119
Dividend: $0 (0%)
EPS 2014: -$0.521, **EPS 2015**: $1.249
EPS 2016: $4.898, **EPS 2017**: $6.152
EPS 2018E: $8.24, **EPS 2019E**: $8.93
2018E P/E: 286.2625x

Investment Thesis:

- **Weakness of competitors**
  Due to furious competitive power of Amazon, many competitors are having a difficult time dealing with them. The disruptive force of Amazon is pushing competitors out of the market faster than ever. With the exception of some high-end stores, the company is trying to have a monopoly on the retail sector.
- **Continuous growth opportunities for a large company**
  The company is expected to grow at an average of 14% annually over the next decade. The company owns many warehouses around the world with minimal labour costs to due the high adaptation of automation. It currently lobbying the US congress to gain the approval of home drone delivery. Lately the company is trying to open a headquarter over the Eastside of North America, with this news Washington has offered taxes write-offs in order to bring Amazon to their state. By taking on new opportunities, and acquiring competing small stores, Amazon is going to be the first 1 trillion USD by Q3 of 2019.
- **Outstanding Consumer loyalty with low cost leadership strategy**
  The company has strong strategy of cost minimizing that Walmart have had hard time competing against in 2017. With the number of searches is increasing on Amazon's application, and the acquisition of Whole Food new flow of customers from various competitors, Amazon has built a strong consumer attachment with minimal resources.
- **Diversified revenue streams from various sectors and countries**
  Amazon is rapidly growing to include various sectors in its portfolio, starting with retails, groceries, shipments and recently it is own production line. Amazon is expanding it is disruptive power around the world with a huge investment to gain the first mover advantage in India.

Potential Catalysts	Material Risks
• Market singularity by adopting extremely low pricing strategy and driving the competition away from the current market. • Global presence, with high investment to enter the Indian market.	• Highly leveraged with over 50% of its capital allocation coming from debt. • High potential of governmental involvement to pay additional taxes and breaking down the organization. • Instability of financial side with no profit orientation.

Recommendation: BUY at $1447.34 for the following reasons:

1. Amazon has a solid history of value creation, an outstanding potential, and a strong order backlog. The current valuation of 286.26x 2018E P/E is compelling.
2. The company has a strong record of FCFF generation, with an outstanding reinvestment potential.
3. The company continues to grow at small company growth rate and strength of biggest companies in the market.
4. The company is most likely to reach a valuation of US$1 Trillion by 2019.

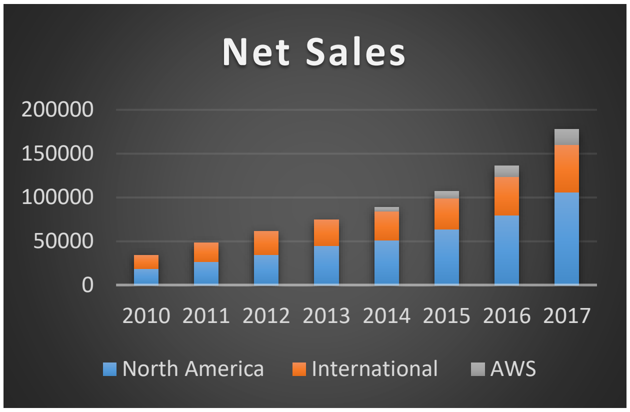
Corporate Profile:

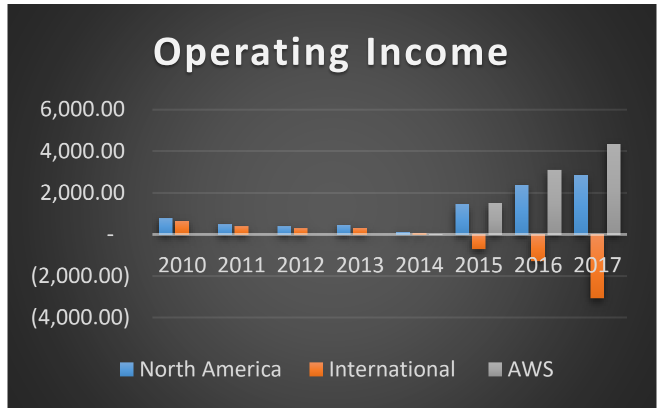
Amazon.com Inc. operates mainly two business divisions: 1) E-commerce and online retailing, as middle man for most the brand around the world; and 2) Online repository services provides individuals and firms with opportunities to license their Web Services on a monthly and annual basis. More recently, Amazon has announced various market entries and acquisitions to diversify to their corporate portfolio. Most these expansions are yet to return profit, like acquiring Whole Food in June of 2017, announcing a partnership with Nike, announcing an initial investment to start a shipping division, and lastly raising money to enter the entertainment industry against Netflix. While Amazon is US company, its operation is not limited to certain countries. They operate on worldwide scale and enormous resources.

Overview:

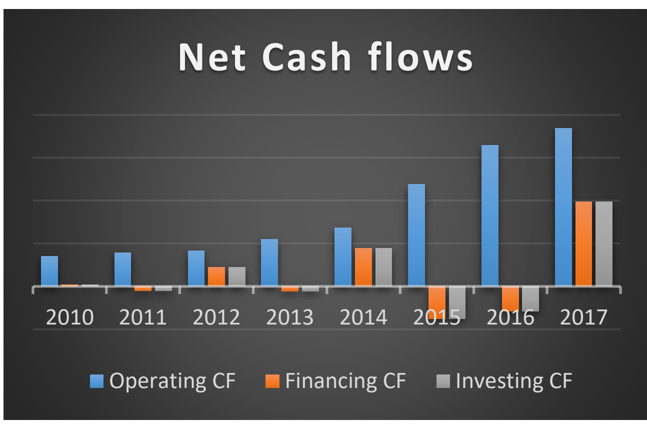
- **Amazon.com Inc. operates Both domestically and internationally**: 1) The domestic part focuses on administrative and innovative approaches to improve the company worldwide. Mainly to the over saturation of this market and the limited possibility of growth in North America. 2) The international division provides an opportunity for the firm to survive and increase the expected life of firm. Amazon is trying its best to be present in every country; but due to governmental restrictions, Amazon is having a hard time implementing this strategy.

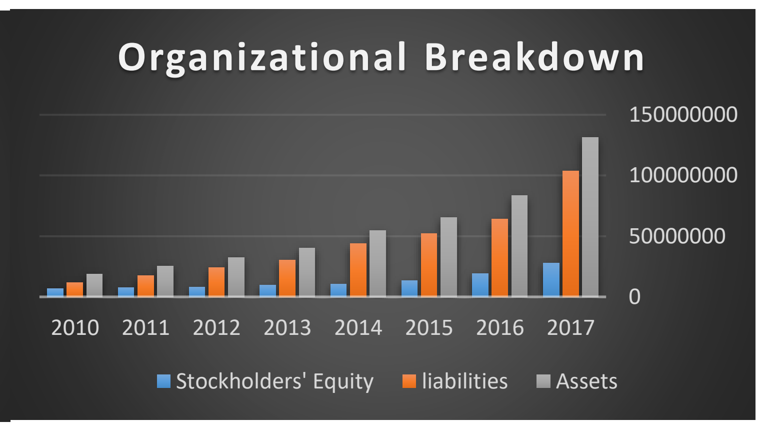
- As shown in the chart below, the North American consumers are the biggest contributor to earnings, generating 60% of 2017 EBIT; however, the international division is generating a negative operating income, with a gross margin of -74% in YTD in 2017.





- With the introduction of AWS, Amazon Web Services, in 2014; Amazon saw a great contribution to its income. Furthermore, the AWS revenue for counts for 10% of amazon's consolidated sales and over 50% of its operating income.





- The continuous acquisition of random firms, firms are detached from Amazon's mission, is bringing a new market exposure to risk that Amazon did have before. Like in 2017, Amazon acquired Whole Food at $1 Billion US dollar, where today they expanded into self-shopping centre and online banking services. This lost of identity is hurting the overall stability of the firm.

- As shown above, the firm cash-flows are extremely unstable, and the organizational breakdown highlights a critical point that Amazon has been doing for a while. Employing an excess amount of debt to cover their acquisition opportunities.
- Amazon, like many other Fortune 500, does not pay dividend, so without any dividend policies, the question here what does Amazon is offering in exchange? The diversification benefits they have from acquiring different businesses? Or the stable unleveraged growth?

	2010	2011	2012	2013	2014	2015	2016	2017
D/E	0.575212	0.442726	0.336248	0.320455	0.24543	0.257088	0.300778	0.267459

Breaking down the firm's holdings:

***Debt*:**

Amazon is highly leveraged, where the optimal capital structure the organization trying to obtain is unclear. Furthermore, making the stock valuation process more complicated and riskier to future changes in the internal functions. Also, the constant increase in long-term debt is increasing the solvency likelihood. As shown below, the Debt/Equity ratio is diminishing a year by year, which will cause a problem for amazon soon.

To calculate the future obligations of Amazon, it important to understand that the firm is in the consumer staples sector. So, having a high debt is not necessary for operations.

Type of debt	*Par Value (Millions)*	*Market Value (Millions)*
2.600% Notes due on December 5, 2019	1,000	956.6638
1.900% Notes due on August 21, 2020	1,000	955.1431
3.300% Notes due on December 5, 2021	1,000	885.9785
2.500% Notes due on November 29, 2022	1,250	1112.694
2.400% Notes due on February 22, 2023	1,000	889.3334
2.800% Notes due on August 22, 2024	2,000	1673.973
3.800% Notes due on December 5, 2024	1,250	972.4727
5.200% Notes due on December 3, 2025	1,000	675.9363

3.150% Notes due on August 22, 2027	3,500	2611.36
4.800% Notes due on December 5, 2034	1,250	570.3264
3.875% Notes due on August 22, 2037	2,750	1312.681
4.950% Notes due on December 5, 2044	1,500	412.0136
4.050% Notes due on August 22, 2047	3,500	1086.823
4.250% Notes due on August 22, 2057	2,250	435.3084
Credit Facility	592 N/A	
Others (Leases…etc.)	100 N/A	

The total of long-term obligation is **$14,550.7065** Millions.

	2010	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*
Interest expense	39	65	92	141	210	459	484	848
Int. Coverage Rate	36.05128	13.26154	7.347826	5.283688	0.847619	4.864924	8.636364	4.841981

The table above highlights the changes of Amazon's ability to meet its current obligations. While Amazon is completely capable of meeting its needs, it is default to rule out the possibility of 2014 reoccurrence. Therefore, Amazon is highly unstable firm with a potential of bankruptcy. This highlights that Amazon's tend manage its debt poorly with high variations in their interest expense payments from year to another. Excluding 2010, Amazon managed to keep its ratio above 1.0, which shows potential of stability, yet the high jump from year-to-year is risk must be minimized. By implementing a margin of safety, the company could decrease it is likelihood of default.

Financial analysis:

Activity Ratios:

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Working Capital	2433	3375	2594	2294	1645	3238	2575	1965	2314
Working Capital turnover		11.77824	16.1089	24.99714	37.80249	36.44809	36.8161	59.90617	83.13438
Total Asset Turnover		2.097761	2.1816	2.112738	2.047804	1.880081	1.784192	1.827217	1.656787

Over the years, the company is growing the effectiveness of investing its working capital by an increase of 34.58% with an increase of working capital 5.8%. Similarly, Amazon with its large warehouses, has underperformed the industry average of 3.62 TAT for 2017.

Liquidity/ Profitability Ratios:

	2010	2011	2012	2013	2014	2015	2016	2017
Current Ratio	1.325395	1.174141	1.120724	1.071584	1.115276	1.075961	1.044847	1.039977
Net profit Margin	0.0337	0.0131	-0.0006	0.0037	-0.0027	0.0056	0.0174	0.0171
Pre-Tax Margin	0.0438	0.0194	0.0089	0.0068	-0.0012	0.0147	0.0286	0.0214
Gross Profit	0.2235	0.2244	0.2475	0.2723	0.2948	0.3304	0.3509	0.3707

Similar to before, has underperformed the industry average in current ratio. Where the average fluctuates around 1.6, Amazon ratio is extremely close to 1.0 which might present an issue soon; especially with the ratio trending downward. As for the profitability ratios, Amazon focuses on market dominance instead of profitability therefore, the current ratios are harmful, but that is what the company wants. They want to build strong loyal consumers by destroying the industry with low and zero profitability.

Investment Ratios:

	2010	2011	2012	2013	2014	2015	2016	2017
ROE	0.190083	0.086314	-0.00489	0.03055	-0.02353	0.049409	0.145153	0.12908
ROA	0.070653	0.028633	-0.00135	0.007536	-0.00509	0.009938	0.031858	0.028252

Similar to profitability, the organization is focusing on long-term dominance over short-term gains, therefore, the investment ratios are below the industry average by margins. Keep in mind, Amazon is driving a lot of competitor out the competition by accepting zero-profit and return. Which is going to pay-off in the long-run.

Other Ratios:

	2011	2012	2013	2014	2015	2016	2017
EVA - Econ Value Added	444,056.0	-239,650.6	-87,760.5	-1,185,786.3	329,125.6	1,889,589.6	2,082,821.0
EVA/Sales	0.0092	-0.0039	-0.0012	-0.0133	0.0031	0.0139	0.0117
ΔEVA/Trailing Sales	-0.0000015%	-0.0000032%	-0.0000010%	0.0000168%	-0.0000014%	0.0000044%	0.0000001%

One of the most powerful tool to analyze the contribution of company is the change of economic value added divided by trailing sales. It highlights how much productivity and profitability the company grew over since the previous year and it indicates the value drivers of the firm, the historical average of EVA Momentum index[1] for companies listed on the Russell 3000 is 0.3% over the past twenty years. So, Amazon lacks the economic impact which caused by focusing on expanding their customer base over their sales.

Degree of Leverage:

Date:	2011	2012	2013	2014	2015	2016	2017
DOL	-0.90	-0.71	0.37	-5.36	45.59	3.46	-0.05
DFL	1.18	4.93	-76.85	2.48	-0.29	3.35	-14.45
DTL	-1.07	-3.50	-28.14	-13.29	-13.41	11.57	0.78

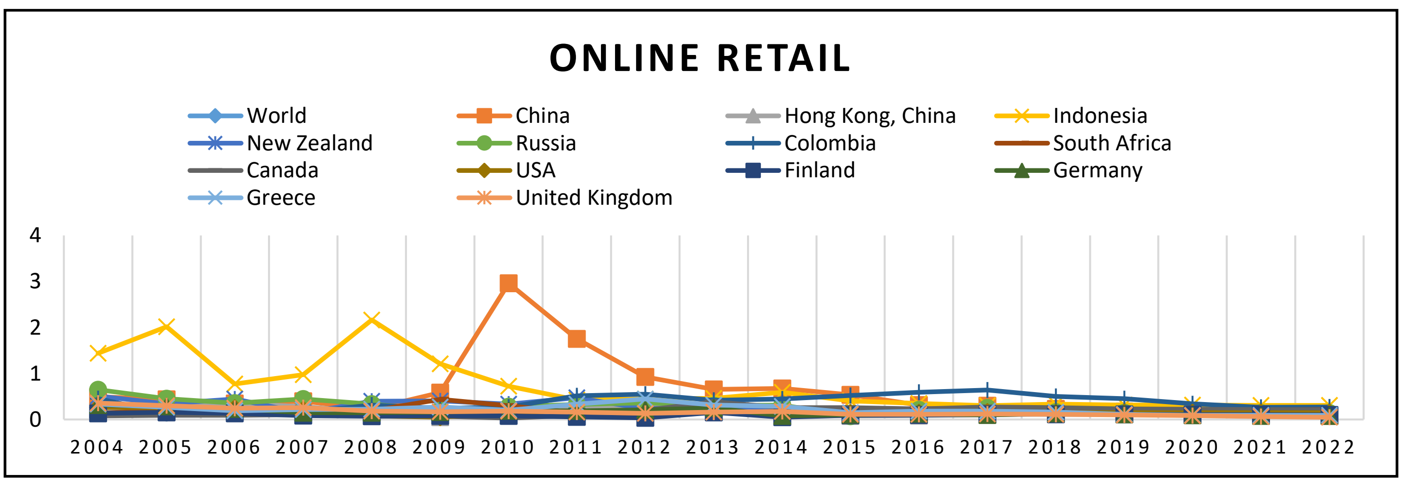
Amazon degree of total leverage varies from period to another, this inconsistency is damaging for long-term stability. Furthermore, the degree of operational leverage is recommended to high for retailers. Many retailers experience high fixed costs and without a strong degree of

[1] Five EVA Metrics That Every CFO Should Know | evaDimensions. (2018). Evadimensions.com. Retrieved 3 April 2018, from http://www.evadimensions.com/5EVAMetricsCFO

operational leverage those firms going to have a tough time meeting their current obligations, like electricity bills and warehouses rents. According to Aboody, Levi and Weiss (2014)[2] having a high degree of operational leverage is harmful in the long-run, so focusing on stabilizing the DOL is the optimal option all companies should seek. Furthermore, DOL has asymmetric effect where drop in EBIT is far more harmful. As for financial leverage, Amazon does not seek profitability at this point of time, so having a negative and/or inconsistent DFL is predictable.

Online Retail Market:

Excluding North America, Amazon has a weak market presence of less 10% market share expect for Middle East, UK, and Germany. More importantly, Amazon have had less 1.1% of China's market which proves to be an important market for this sector. Furthermore, the average market share Amazon has, worldwide, 8.2% in 2017; with 0.1% increase from the previous year. With many firms entering this market, the online retail is reaching is maximum potential in many major countries. With expected worldwide saturation by 2024, Amazon will



have no other option but to modify its current segments. Amazon and online retailing was a

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[2] Aboody, D., Levi, S., & Weiss, D. (2014). Operating Leverage and Future Earnings. Tel Aviv University And UCLA, University of Calgary. Retrieved from http://haskayne.ucalgary.ca/files/haskayne/Aboody-Levi-Weiss-ALW_DEC-2014.pdf

disruptive technology to traditional retailers, where it drove many competitors out of the market, this technology was not monopolized and protected as a competitive advantage. Thus, making the entry of competitors extremely easy.

Main competitors:

<u>Alibaba Inc.</u>

Alibaba makes use of a relatively hands-off strategy to promote the success of those that occupy its carefully managed ecosystem, with Alibaba itself benefiting from the success of its partners with relatively less at risk than investment in its own retail business would require.

<u>Walmart Inc</u>.

Grocery stores still account for 46% of all store-based retail. So, Walmart still have the potential to dominate the market. While it has one of the strongest supply chain management, Walmart could not compete against Amazon innovative technologies and strong acquisition power. Lastly, Amazon purchase of Whole Foods and the introduction of No-checkout stores is a bold move to destroy Walmart, but one that creates more questions than answers thus far.

<u>Shopify</u>

Similar to Alibaba, Shopify aids suppliers and producers to reach wider networks and effectively link them to their consumers. Shopify sells its services in exchange for royalties therefore, it difficult to conclude the impact on Amazon's future.

e-Bay Inc.

An early mover to this industry, where it used to be Amazon's number one competitor, but due to the poor management and brand weakness, e-Bay have lost a lot of its market share to Amazon and other competitors. It is unclear whether e-Bay will continue to be a competitor to Amazon in the near future.

JD.com

One of China's top competitors, recently, the company has now partnered with Chinese social media and internet giant, Tencent, and the global retail leader, Walmart. Using Tencent's network to increase the reach of its impressive distribution network and Walmart's Sam's Club brand, JD.com has become a formidable rival. Again, with Alibaba in the lead, China has produced yet another formidable competitor that rivals Amazon growth and market shares.

To summarize, the outcome of this competition is depending on which competitor wins the Indian market first, while all of these companies are investing millions of dollars to enter the Indian market, it is hard to assume that the Indian consumer is going to like Amazon over the cost-friendly, Alibaba or JD.com. Lastly, with JD and Alibaba controlling the Chinese market, India is the going to be the bottle field to determine the next e-commerce leader.

***Porter's Five Forces (P5F)*:**

Competitive Rivalry – High

For many retailers, Amazon and Walmart destroyed the rivalry. Amazon took over by offering incredible online sale system which limited companies from penetrating the online market. As for Walmart, their outstanding logistics that eliminated competitors from entering the market. The only remaining retailer that did not get affected by this shift is Dollar Stores. While Amazon is trying to overcome this obstacle, forcing Dollar stores out of the competition is going to be resourcefully exhaustive. Because for Dollar stores, price and location are the only deciding factor for its consumers. So, the driving factor in this industry is price and with cost dropping down from the economy of scales, the marginal profit is limited to the market share Therefore, the retail industry is highly saturated, meaning competitors faces intense competition. The retail industry is currently facing a duopoly, perfect competition does not hold anymore, and consumers will buy that product somewhere else due to the lack switching costs.

Threat of New Entry - Low

The retail industry has high number competition and the threat of new entry would not be as severe as any other industry. So, it should not be a concern. Keep in mind that the new generation of retailers are optimizing their positions by incorporating some strong technological and logistical advances that new competitors tend to lack. Building a brand recognition and relationships with suppliers and customers would be very difficult to replicate for new firms. Additionally, Economies of scale would all be challenges faced by a new company. Therefore, a new entrant would face economic barriers and logistical barriers, reducing the threat of new entry into the industry.

Threat of Substitution – High

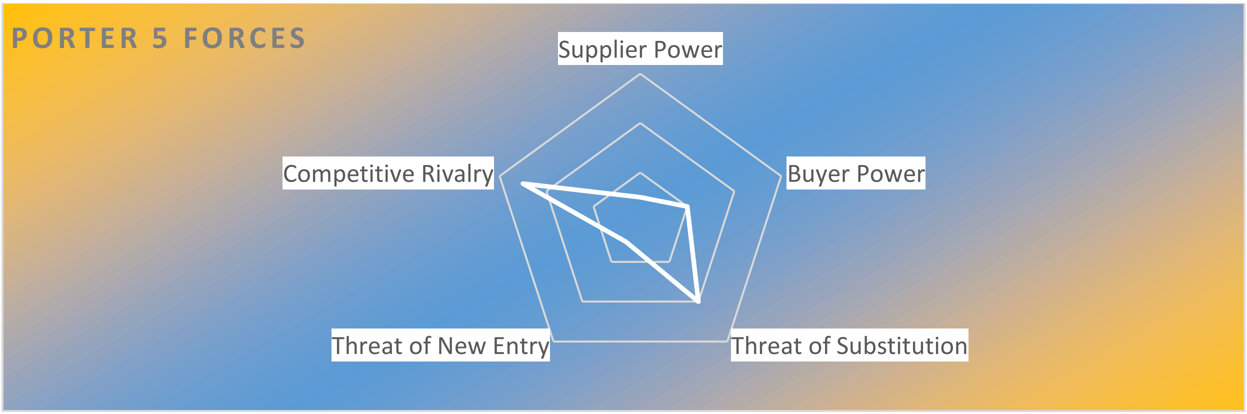
The threat of substitution is high as many substitutes exist in the industry because most of these goods are a necessity for each house, therefore, the price is the driving factor according to the law of demand. So, consumer will not hesitate to switch their shopping destination.

Buyer Power – Moderate Low

The low switching costs means that customers can easily transfer to other retailers. Thus, with no differentiated in most products, the buyer has the bargaining power over the supplier. On the contrary, Amazon, the middle man, reduced their power through the psychological effect memberships using Amazon Prime. With Amazon aggressive behaviour, consumers are going to have tough time finding a replacement of Amazon with high variety and accessibility. therefore, buyers have a small influence overall.

Supplier Power - Low

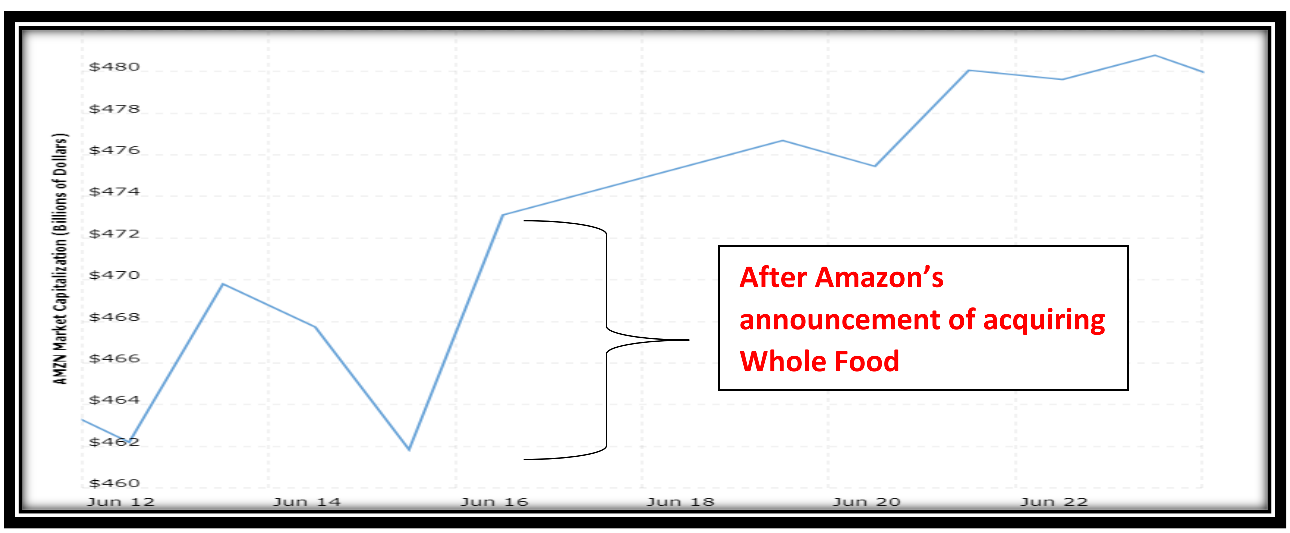
Canada has many suppliers across North America because of NAFTA, where large and small suppliers could bring raw materials through the borders. Due to the large population of suppliers, retailers are not dependent on any one supplier. Since suppliers are able to sell large volumes of goods on Amazon's website compared to the average retailer, suppliers are going to have tough time retaining their power here. With the unlimited shelving space, Amazon is an attractive place for shoppers and suppliers are dying to partner with Amazon. which reduces any supplier's bargaining power as their actions are unlikely to significant for Amazons survival.



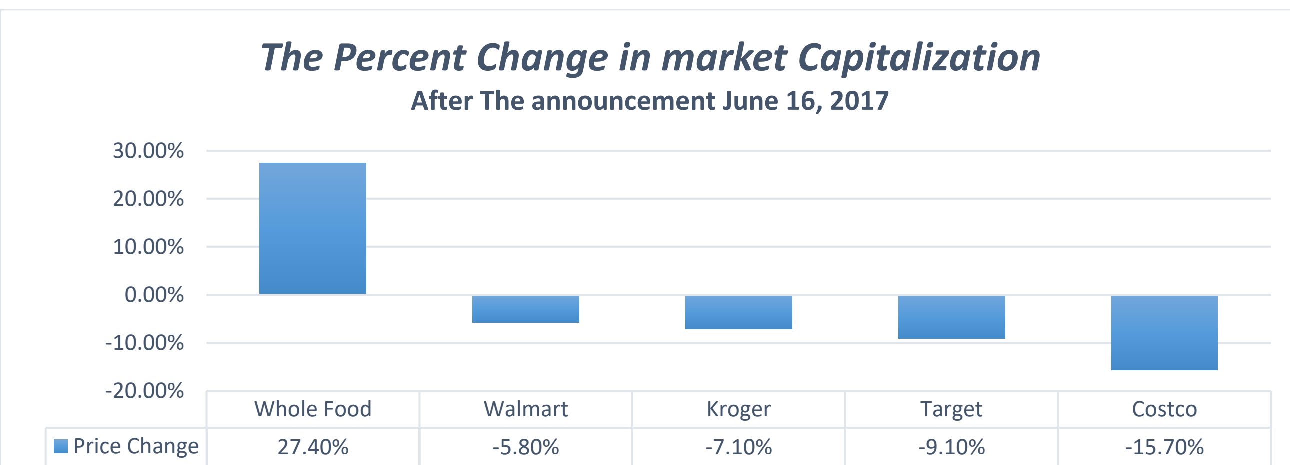
Behavioural changes:

Amazon announced the acquisition of Whole Food on June 16, 2017 by 13.5 Billion US dollar. On the acquisition date announcement, Amazon's price increase by 3% immediately and 10% by the end of the week. This announcement and the acquisition have increased Amazon's potential and strategic outlook. Moreover, with the recent introduction of No-checkout stores, Amazon is growth potential has skyrocketed, therefore, Amazon is one of the few companies with growth of a start-up company.

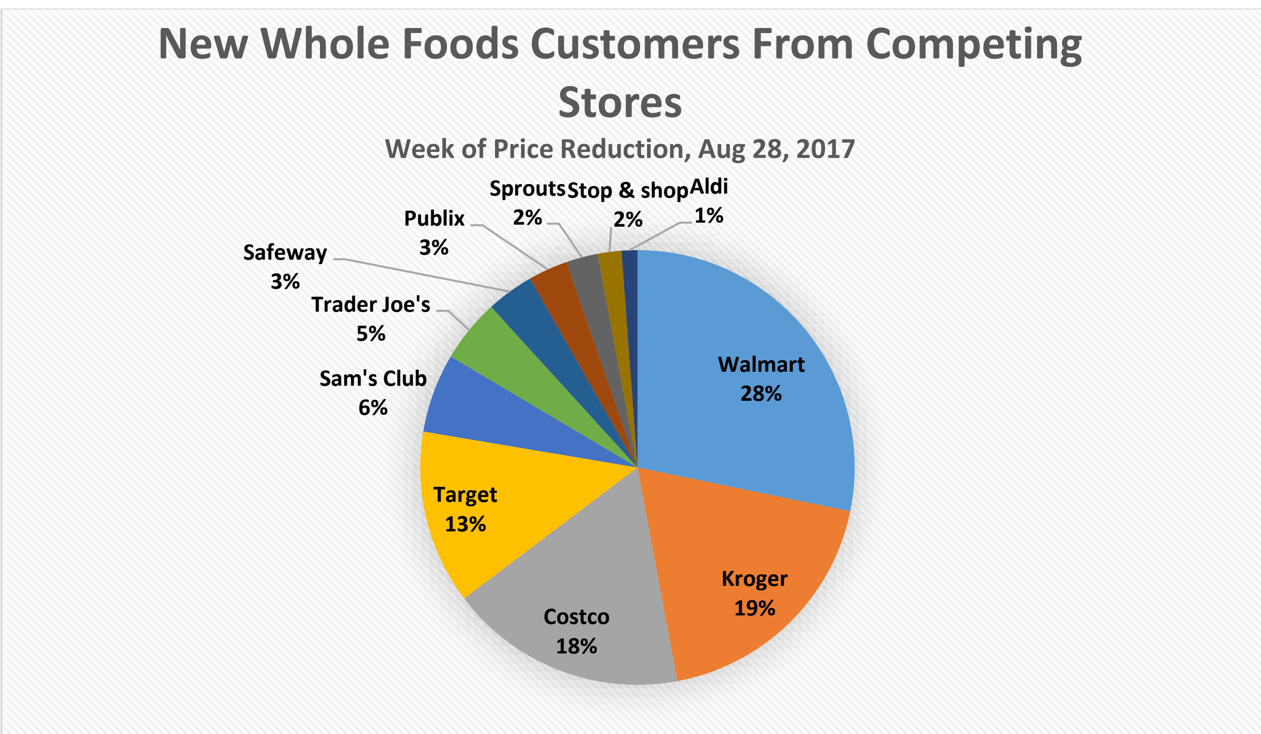
Amazon market Capitalization after Whole Food announcement.



Along with the huge increase of Amazon's market capitalization on the day of the announcement, Whole Food's stock reacting to the announcement with an increase 27% at the expense of the its competitors, Whole Food plays a strategic part of Amazon's goal of market monopoly over the majority of the US market. Ultimately, Whole Food original customers are able to shop more frequently at an affordable rate than ever before, after Amazon bring its logistical expertise and their outstanding hurdle rate. Which will minimum the costs and increase the revenue margins for new owners of Whole Food. After the announcement, the grocery retailers took the biggest hit. Major competitors dropped by the acquisition price within the same day as shown below. This behaviour indicates the strength behind Amazon and how the market feels about competing against Amazon. The huge drop in market capitalization to one of the strongest competitors, Kroger's, proves that Amazon took the correct decision by acquiring Whole Food. A similar behaviour was seen repeatedly after Amazon's announcement of entering the shipping sector, prescription drugs and the partnership with Nike. So, Amazon has one of the strongest market pressure on competitors, which makes Amazon a forceful organization regardless of their financial stability.



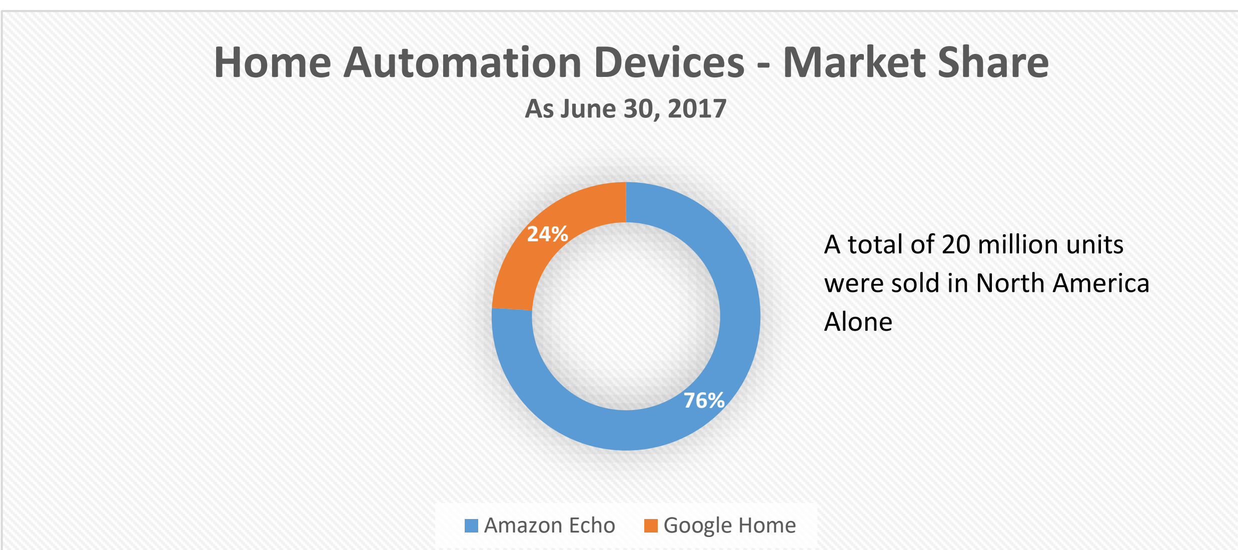
After Amazon acquisition and the promises on lowering the prices of Whole Food products, the store received a huge increase of consumer traffic of 17% YoY[3], where it peaked at 31% increase. Most of Whole Food shoppers are coming from their competitors, with the hope of low prices, it is clear indication of high royalty of Amazon's consumers. So, regular Amazon's customers are now looking to shift away from Walmart, with the lowest prices across the market. This a strong prove of Amazon's strategic objective, which building a loyal consumer base. Building a strong market presence and taking down competitors with by minimizing profit margins are powerful tools Amazon is utilizing. Which the introduction with zero-checkout stores, Amazon is going to be one of the leader competitors in the grocery sector. The recent underperformance of Walmart is an example of how Amazon presents a threat to all competitors regardless of strong they are.



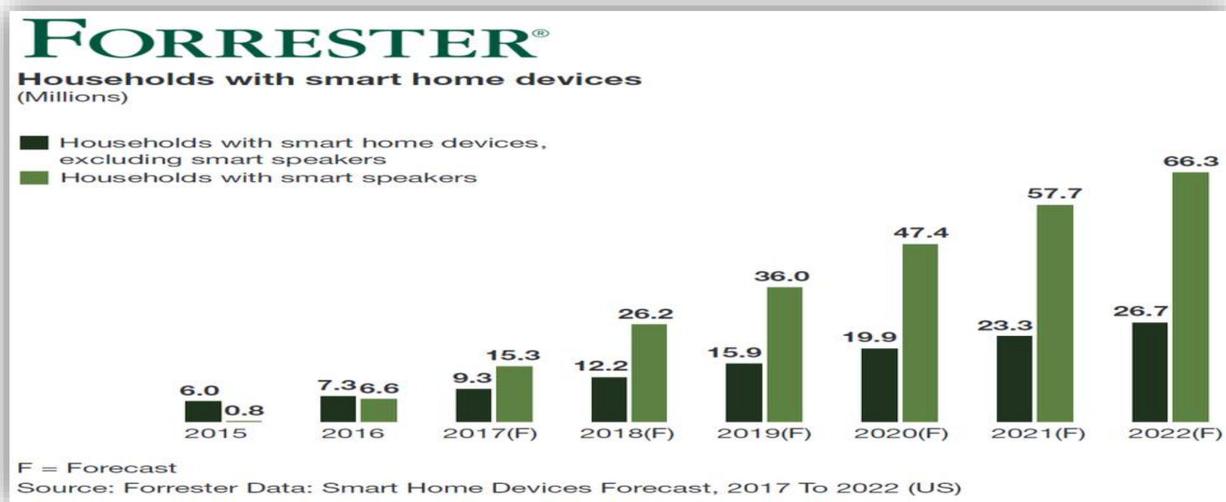
[3] Insights - Thasos Group. (2018). Thasos Group. Retrieved 3 April 2018, from http://thasosgroup.com/insights/

Home Automation Devices (Smart Speakers) industry:

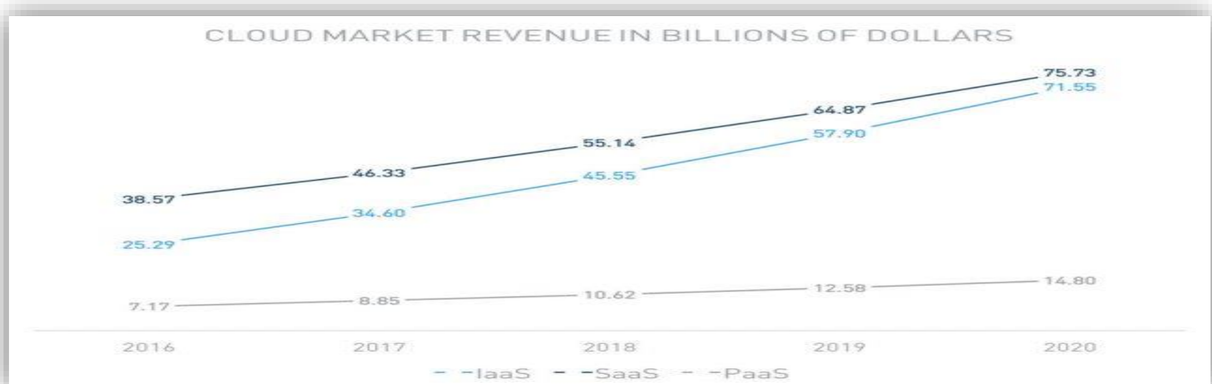
A new market has emerged with Amazon gaining the first mover advantage, the current market is valued 2.68 billion USD with expected growth to reach US$11.79 Billion by 2023[4]. The average annual growth rate is estimated to by 34.44% between 2018 and 2023. So, this market has the highest potential over the next few years. Where many competitors are trying to gain a fraction from this growth, including Apple and Facebook. The future of home smartphones in the Smart speakers. With an outstanding sale spike over the holidays of 2017, the market is expected to be the fastest growing tech market over the next few years. So, with Amazon Alexa leading this technology, by owning 76%[5] of the market share, Amazon is expected to reach a 1 trillion USD by 2019. This a great news for Amazon shareholders and true indication of Amazon's future of "No-button purchases". The psychological aspect of over-spending is fading away thanks to Amazon's "1-click checkout" and "zero-checkout" stores.

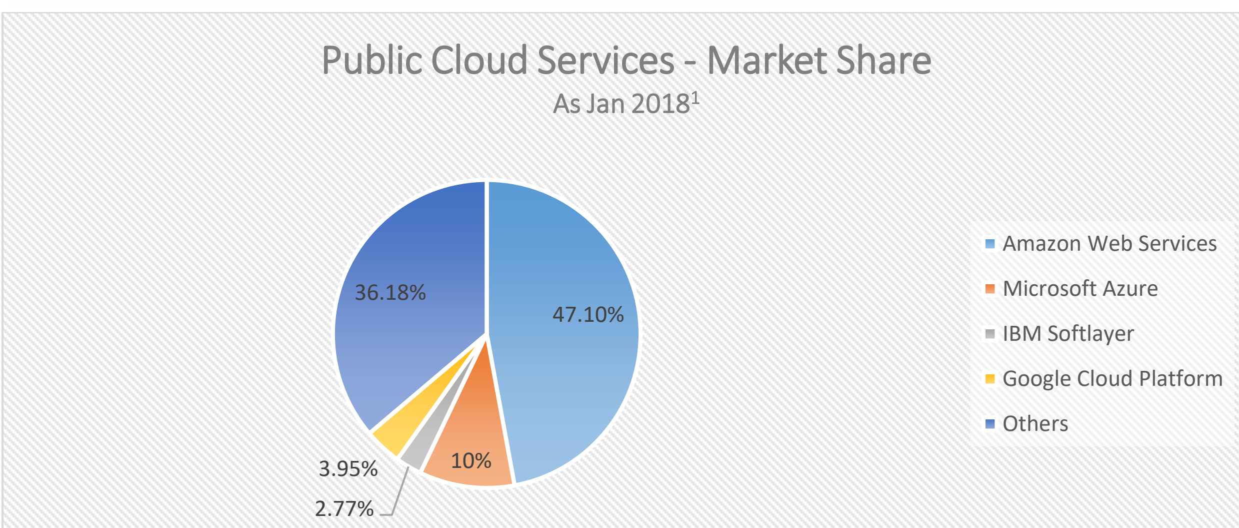


[4] Smart Speaker Market worth 11.79 Billion USD by 2023. (2018). Marketsandmarkets.com. Retrieved 3 April 2018, from https://www.marketsandmarkets.com/PressReleases/smart-speaker.asp
[5] Consumer Intelligence Research Partners, LLC. (2017). Amazon Echo Dominates US, with 75% of Users (p. 1). Chicago, IL: CIRP. Retrieved from http://files.constantcontact.com/150f9af2201/92e32c6b-80ad-46ee-a11e-467eaa9f6b75.pdf



The Could/ Server industry:





Amazon Web Service (AWS) contributes the highest growth of revenue for Amazon in 2016 and 2017 with 42% growth. With the expected growth in this market, where most companies are turning away from local database toward could databases, Amazon is expected grow even further. The current market is valued at $34.6 billion and growth rate of 38.6% in 2017. Reaching 71.55 billion USD in 2020, with no signs of slow down the expected compounded annual growth rate (CAGR) of 29.7%. As data grow and flexibility of companies and individuals become an necessity, Cloud services are the technology of the future. Furthermore, the Government of Canada is moving toward wireless organization, therefore, Amazon is expected to lead this movement by offering the cheapest repository on the market. By owning almost half of the market, Amazon is going to have a stable return for the next few years.

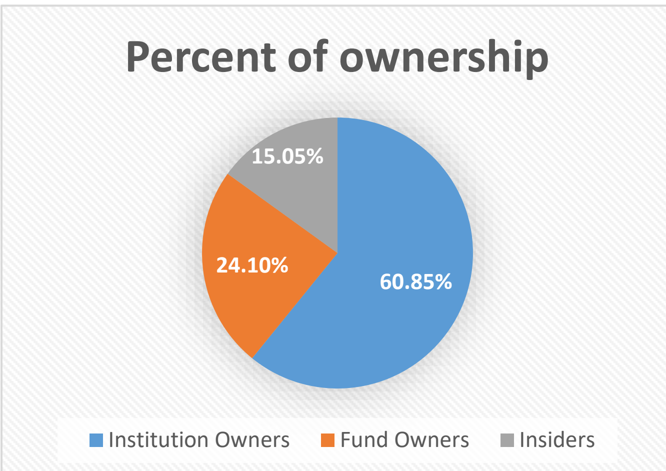
MANAGEMENT[6]:

		Compensations		
Name	**Position**	**2016**	**2015**	**2014**
Jeffrey Bezos	Chairman/ CEO	1,681,840	1,681,840	1,681,840
Brian T. Olsavsky	CFO	4,558,647	7,786,573	-
Jeffrey M. Blackburn	Senior Vice President	22,194,343	-	-
Andrew R. Jassy	Region Officer	35,609,644	174,675	7,664,868
Jeffrey A. Wilke	Region Officer	32,958,114	175,959	8,516,049
David A. Zapolsky	General Counsel/ Secretary	N/A	N/A	N/A

Amazon managers focuses on a common belief and philosophy. They will always choose to take an aggressive competitor approach. This philosophy what allows Amazon to maintain the market growth and dominance. Overall, the compensation packages that Amazon's directors are receiving are below the standard average, yet Jeff Bezos, was announced to be the richest person in the world, it is unclear how they reach this position without a proper strategic

[6] Source: Mergent Online

alignment. Furthermore, the average compensation package across Amazon's management seems to vary significantly, which might present an internal conflict and an agency issue among the management team. Overall, the average CEO-pay-ratio is 10% of what Walmart has. This indicates a reasonability behind the management compensation structure.



Amazon has huge institutional holdings[7], and recently many of those institutions have increase their option positions due to the unclear future of Amazon.com.

Like we mentioned before, Amazon has no dividend history nor stock buybacks, which raises a question regarding the current management of Amazon, and their approach with on-hand money.

Environmental Analysis:

ESG valuation

- Environmental issues:

  Energy efficiency: Amazon is investing a lot of dollars to increase their transportation durations, with that, the firm carbon footprint has increased significantly over the past couple of years. This behaviour is affecting the environment and increasing the emission of carbon dioxide which to result in a negative impact on the ozone layer.

- Social issues:

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[7] Funds Holding AMZN. (2018). Holdingschannel.com. Retrieved 3 April 2018, from https://www.holdingschannel.com/bystock/?symbol=amzn

Employees: Amazon offers its employees the opportunity to pay-off 95% of its college tuitions in order to motivate its employees to achieve higher educational levels. Additionally, Amazon is one of the leading hosts for "Girls Who Code" movement[8]. In order to encourage equality and push females into the field of computer science.

- Governance issues:

  Lobbying: Amazon has recently spent over 12.8 million USD to increase its government supporters, shortly after acquiring Whole Food. An increase of 20% of governmental lobbying, in order to advocate about changing online sales taxes and home delivery drones. [9]

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[8] Dudovskiy, J. (2018). Amazon Corporate Social Responsibility. Research-methodology.net. Retrieved 3 April 2018, from https://research-methodology.net/amazon-corporate-social-responsibility/

[9] Yeager, H., Leonnig, C., Yeager, H., & Leonnig, C. (2018). As its business grows, so does Amazon's D.C. lobbying presence. Washington Post. Retrieved 3 April 2018, from https://www.washingtonpost.com/politics/as-its-business-grows-so-does-amazons-dc-lobbying-presence/2013/08/06/1aac1fd2-fec3-11e2-96a8-d3b921c0924a_story.html?utm_term=.ac38a0891a33

VALUATION:

Companies	Ticker	Current Share Price	52- weeks		1-Yr Change (%)	Mkt Cap ($m)	LT Debt/ inv. Cap (%)	EPS ($)			P/E (x)			Price/ Sales (TTM)	Price/ Book (x)
			High	Low				2015	2016	2017	2015	2016	2017		
Physical Retailers															
Wal-mart Inc.	WMT	88.97	109.55	69.61	23.55	260,541	33.96	5.05	4.57	4.38	12.37	14.81	24.19	0.56	2.61
Costco WS corp.	COST	182.75	198.91	150.44	12.66	82,213	37.70	5.37	5.33	6.08	26.36	29.14	31.97	0.65	6.42
Best Buy Co. Inc.	BBY	68.92	78.06	44.06	43.86	20,475	21.75	3.49	2.56	3.81	7.52	16.86	19.05	0.56	2.87
Home Depot Inc.	HD	172.9	207.23	144.58	21.8	208,046	80.01	4.71	5.46	6.45	25.41	24.49	30.97	2.31	38.41
Target corp.	TGT	68.98	78.58	50.18	29.95	38,556	48.58	5.31	4.7	5.33	12.56	13.05	14.00	0.55	3.37
Average					26.364		44.4				16.85	19.67	24.04	0.926	10.736
Online Retailers															
Shopify inc.	SHOP	122.08	200.28	66.71	81.8	8,779	10.1	-0.3	-0.42	-0.42	- 77.40	- 121.00	- 304.57	21.78	10.08
e-Bay inc.	EBAY	39.36	46.19	32.05	17.87	42,467	51.08	1.42	6.35	-0.95	16.52	5.01	- 42.72	4.67	4.82
Alibaba Group H. Ltd	BABA	177.61	205.22	68.5562	70.7	490,413	20.57	9.7	27.87	16.97	6.91	3.64	12.04	3.13	6.67
JD.com inc.	JD	39.08	50.5	30.32	28.78	4,122	17.45	-5.35	-3.43	-1.36	- 4.87	- 8.28	- 36.20	0.48	14.8
Michael Kors H. Ltd	KORS	61.94	68.14	33.05	68.6	9,533	24.24	4.28	4.44	3.29	9.32	9.64	20.06	2.31	6.13
Wish	(Private)	Funding: 1.41 B				9,210	N/A				Offered $10B from Amazon			N/A	N/A
Average					53.55		24.688				- 9.90	- 22.20	- 70.28	6.474	8.4998
Amazon.com Inc	AMZN	1,447.34	1,598.39	843.2	59.6	768,041	57.78	1.25	4.9	6.15	469.787	168.057	257.9691	4.28	20.43

- Comparative valuation/Peer Analysis:

As can be seen in the figure above, Amazon is traded at a discount relative to its peers under most valuation metrics. This is surprising considering FY2016 is considered to be a bad year for Amazon's investors due to the high drop in net income. Many of the competitors falls within the growth group of stocks. So, high growth rates are typical in this industry. Keep in mind that most of Amazon's physical retailers are using Amazon's virtual shelfs for their products as alternative to physical retailing. Which allows Amazon to control the competition even further. Overall, online retailers are considered to be a threat. This threat is coming mainly from their Chinese competitors, Alibaba and JD.com. With China aiding these competitors, Amazon is going to have a difficult time expanding into South Asia.

- DCF (FCFF model):

(In millions)	*Operating CF*	*Growth (est.)*	*Interest Expense*	*Tax Rate*	*Capital Expenditure*	***FCFF***
2013	5,475.0	0.0%	141.0	62.6%	3,444.0	**2,083.7**
2014	6,842.0	25.0%	210.0	0.0%	4,893.0	**2,159.0**
2015	11,920.0	74.2%	459.0	55.4%	4,589.0	**7,535.6**
2016	6,842.0	-42.6%	484.0	42.9%	4,893.0	**2,225.2**
2017	18,434.0	169.4%	848.0	21.0%	11,955.0	**7,149.2**
2018	21,313.4	15.62%	980.5	35.0%	13,822.4	**8,128.3**
2019	24,547.1	15.17%	1,129.2	35.0%	15,919.5	**9,361.6**
2020	28,180.2	14.80%	1,296.3	35.0%	18,275.7	**10,747.1**
2021	32,247.6	14.43%	1,483.5	35.0%	20,913.5	**12,298.3**
2022	36,767.0	14.01%	1,691.4	35.0%	23,844.5	**14,021.9**
2023	50,439.3	10.00%	2,320.3	35.0%	32,711.4	**19,236.1**
2024	52,595.3	4.27%	2,419.5	35.0%	34,109.6	**20,058.3**
2025	54,751.3	4.10%	2,518.7	35.0%	35,507.8	**20,880.6**
2026	56,907.2	3.94%	2,617.8	35.0%	36,906.0	**21,702.8**
2027	59,063.2	3.79%	2,717.0	35.0%	38,304.2	**22,525.0**
Terminal	-	2.9%	-	35.0%	-	**1,379,120.3**

	COST	**WEIGHT**
DEBT (AFTER TAX**)**	1.39%	57.78%
EQUITY	8.86%	42.22%
CAPITAL	4.54%	

In order to value Amazon fairly, we opted to use a discounted free cash flow approach. After computing the firm value using five years of projection, we opted to use a ten years' projection because over 80% of the intrinsic firm value was coming from the terminal value. As well as the sudden drop of expected growth rate, using a ten years' projection with a diminishing growth rate seen the most reasonable in this case. As a diversified firm, we based future revenue growth on the growth of its current market ownership, while international Amazon's sale is currently negative, we assumed a constant behaviour is going to continue due to current goal of the organization, while it is hard to predict Whole Foods sales, it assumed Whole Food is going to keep its original sales before the acquisition with a growth rate close to the market maturity. The growth of continuous operating cash flow amounts an average of 12% annually, with annual drop to reach 2.90% by 2027. Starting with 15.6% growth in 2018, followed by 15.2% in 2019, Amazon is expected to reach a one trillion dollars by the third quarter of that year. While profitability is not objective for Amazon at the moment, we assumed breaking-even and moving toward a normal business objective is the correct path to take. With respect to the terminal value, we expected Amazon is going to reach its market maturity by 2028, therefore, the structured forecast includes a regression Amazon's current segments.

- Regression (Total segments excluding China & India): -117.2538992 + 0.058638539*(Yr.) (R^2= 0.3639906)
- $Y = -117.2538992 + 0.058638539\, T$

As for the capital structure of the organization, we assumed the current allocation of debt and equity is the optimal and the management is going to keep this structure going forward. Therefore, the cost of debt: 2.86% using the US Treasury bonds of 10 years, by using synthetic rating tools, the current interest coverage ratio yields a default spread of 1.1% (rating of "A3/A-"). While measuring the tax rate of Amazon is challenging, we assumed Amazon is going to have a 35% annual tax rate going forward. The cost of equity was calculated using an implied risk premium of 6% (Assumed), with a conservative beta of 1.0. As for the risk-free rate, we used the US T-bond as the benchmark for this rate, which equals to 2.86%.

(in millions)	***FCFF***	***PV***		
2018	8,128.3	7,775.3		
2019	9,361.6	8,566.1		
2020	10,747.1	9,406.9		
2021	12,298.3	10,297.1		
2022	14,021.9	11,230.4		
2023	19,236.1	14,737.5		
2024	20,058.3	14,700.0		
2025	20,880.6	14,638.0		
2026	21,702.8	14,553.7		
2027	22,525.0	14,449.1	***SUM***	***Value Per Share***
Terminal	1,379,120.3	884,661.6	**1,005,015.6**	**1,983.25**

After using the data on hand and the assumption mentioned before, the current forecast of terminal value provides only 66% of the firm's value. Additionally, by extending the assessment period, we had a better control of future growth, by the nature of future growth, the growth rate is going to diminishes to reach the risk-free rate by 2028. A natural exit of high growth rate. The following analysis highlights the changes in the cost of capital against changes in the exit growth rate.

		WACC sensitivity							
		2.54%	3.04%	3.54%	4.04%	**4.54%**	5.04%	5.54%	6.04%
Growth sensitivity	0.50%	1,941.29	1,538.69	1,271.36	1,081.85	941.14	833.03	747.73	678.99
	1.00%	2,508.85	1,868.06	1,482.96	1,227.23	1,045.92	911.30	807.84	726.20
	1.50%	3,622.15	2,411.31	1,798.29	1,429.86	1,185.17	1,011.67	882.83	783.81
	2.00%	6,797.10	3,476.92	2,318.39	1,731.81	1,379.24	1,145.07	979.01	855.68
	2.50%	89,345.91	6,515.88	3,338.57	2,229.83	1,668.44	1,330.98	1,106.82	947.85
	2.86%	- 10,950.89	19,157.94	5,002.06	2,849.75	**1,983.25**	1,517.64	1,228.38	1,032.16
	3.36%	- 4,155.72	- 10,471.89	18,351.08	4,799.64	2,739.17	1,909.60	1,463.81	1,186.83
	3.86%	- 2,508.40	- 3,967.78	- 10,015.59	17,582.26	4,606.71	2,633.74	1,839.37	1,412.46
	4.36%	- 1,766.20	- 2,391.03	- 3,788.76	- 9,580.81	16,849.50	4,422.78	2,533.21	1,772.38

- **Fama & French 5 Factors model**:

The following table forecast the factors that effect the return on Amazon stock price. The regression below highlights how Amazon changes with changes in the market. Amazon is large growth organization with weak operating profitability and a strong aggressive investment. The adjusted R^2 indicates that 30% of Amazon's risk is coming from the market. Overall, the expected return on Amazon's stock is 13.8%.

AMZN	*COEFFICIENTS*	*STANDARD ERROR*	*REGRESSION STATISTICS*	
INTERCEPT	0.001083447	0.00050137	**Multiple R**	0.63486344
MKT - R_F	1.007837537	0.067688039	**R Square**	0.403051588
SMB	-0.552698501	0.105504099	**Adjusted R Square**	0.399066618
HML	-0.184990081	0.121608577	**Standard Error**	0.013728826
RMW	-0.455786311	0.164355754	**Observations**	755
CMA	-1.693969282	0.19472558		
	EXPECTED RETURN:	**13.8%**		

Further Analysis:

Amazon is not clear what they are doing, with the recent announcement of entering the shipment, the entire shipping market dipped by 8 billion US dollar, it is obvious that Amazon is diversifying their portfolios and trying to acquire the whole supply chain. Therefore, while Amazon on the break of US$7.7 billion market value, Amazon is going to be the first $1 Trillion business in the world. With that being said, there is high probability of governmental intervention to breakdown the organization to maintain the competitive nature of the market. But, with the high representatives within the US congress, Amazon might have a higher chance survival through this process without the need to be broken down. Additionally, the current process of choosing a second headquarter for Amazon is gaining a high traffic across media companies and Amazon is receiving a ton of benefits from the exposure and bidding processes. So, overall, with the current Trump administration, it is uncertain to predict the any governmental interference. So, with all fairness, Amazon is a furious competitor, where companies across industries are trying their best to avoid any direct competition. Therefore, the correct recommendation should be to stay away from they organization and invest in different industry with higher certainty about the future.

Pro-forma Financial Statements:

A. Income Statement (Pro-forma)

a. Common Size Income Statement

(in millions)	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Net product sales	94665	118573	123,389.47	142,109.98	163,143.20	186,690.41	212,854.27	234,139.70	244,147.68	254,155.66	264,163.65	274,171.63
Net services sales	41322	59293	82,259.65	94,739.99	108,762.13	124,460.27	141,902.85	156,093.13	162,765.12	169,437.11	176,109.10	182,781.09
Total net sales	135987	177866	205,649.12	236,849.97	271,905.33	311,150.68	354,757.11	390,232.83	406,912.80	423,592.77	440,272.75	456,952.72
Cost of sales	88265	111934	123,389.47	142,109.98	163,143.20	186,690.41	212,854.27	234,139.70	244,147.68	254,155.66	264,163.65	274,171.63
Fulfillment expenses	17619	25249	28,790.88	33,159.00	38,066.75	43,561.09	49,666.00	54,632.60	56,967.79	59,302.99	61,638.18	63,973.38
Marketing expenses	7233	10069	10,268.49	11,826.42	13,576.80	15,536.41	17,713.77	19,485.15	20,318.01	21,150.88	21,983.74	22,816.61
Technology & content expenses	16085	22620	20,564.91	23,685.00	27,190.53	31,115.07	35,475.71	39,023.28	40,691.28	42,359.28	44,027.27	45,695.27
General & administrative expenses	2432	3674	4,112.98	4,737.00	5,438.11	6,223.01	7,095.14	7,804.66	8,138.26	8,471.86	8,805.45	9,139.05
Other operating expense (income), net	167	214	205.65	236.85	271.91	311.15	354.76	390.23	406.91	423.59	440.27	456.95
Total operating expenses & costs	131801	173760	187,332.38	215,754.24	247,687.29	283,437.14	323,159.64	355,475.61	370,669.93	385,864.25	401,058.58	416,252.90
Income from operations	4186	4106	18,316.73	21,095.73	24,218.04	27,713.54	31,597.47	34,757.22	36,242.87	37,728.52	39,214.17	40,699.82
Interest income	100	202	205.65	236.85	271.91	311.15	354.76	390.23	406.91	423.59	440.27	456.95
Interest expense	484	848	1,028.25	1,184.25	1,359.53	1,555.75	1,773.79	1,951.16	2,034.56	2,117.96	2,201.36	2,284.76
Other income (expense), net	90	346	205.65	236.85	271.91	311.15	354.76	390.23	406.91	423.59	440.27	456.95
Total non-operating income (expenses)	-294	-300	411.30	473.70	543.81	622.30	709.51	780.47	813.83	847.19	880.55	913.91
Income (loss) before income taxes	3892	3806	16,465.89	18,964.08	21,770.89	24,913.18	28,404.66	31,245.12	32,580.65	33,916.18	35,251.71	36,587.24
Total current income taxes	1671	798	5,763.06	6,637.43	7,619.81	8,719.61	9,941.63	10,935.79	11,403.23	11,870.66	12,338.10	12,805.54
Net income (loss)	2371	3033	10,702.83	12,326.65	14,151.08	16,193.57	18,463.03	20,309.33	21,177.42	22,045.52	22,913.61	23,781.71
Net product sales	69.6%	66.7%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%
Net services sales	30.4%	33.3%	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%
Total net sales	100.0%	100.0%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of sales	64.9%	62.9%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%
Fulfillment expenses	13.0%	14.2%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%
Marketing expenses	5.3%	5.7%	4.99%	4.99%	4.99%	4.99%	4.99%	4.99%	4.99%	4.99%	4.99%	4.99%
Technology & content expenses	11.8%	12.7%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
General & administrative expenses	1.8%	2.1%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Other operating expense (income), net	0.1%	0.1%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
Total operating expenses & costs	96.9%	97.7%	91.09%	91.09%	91.09%	91.09%	91.09%	91.09%	91.09%	91.09%	91.09%	91.09%
Income from operations	3.1%	2.3%	8.91%	8.91%	8.91%	8.91%	8.91%	8.91%	8.91%	8.91%	8.91%	8.91%
Interest income	0.1%	0.1%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
Interest expense	0.4%	0.5%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Other income (expense), net	0.1%	0.2%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
Total non-operating income (expenses)	-0.2%	-0.2%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%
Income (loss) before income taxes	2.9%	2.1%	8.01%	8.01%	8.01%	8.01%	8.01%	8.01%	8.01%	8.01%	8.01%	8.01%
Total current income taxes	1.2%	0.4%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%
Net income (loss)	1.7%	1.7%	5.20%	5.20%	5.20%	5.20%	5.20%	5.20%	5.20%	5.20%	5.20%	5.20%

B. Balance Sheet (Pro-forma)

a. Common Size Balance Sheet

(In millions)	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Cash & cash equivalents	19,334	20,522	33,813	38,943	44,707	51,159	58,329	64,162	66,905	69,647	72,390	75,132
Marketable securities	6,647	10,464	11,115	12,801	14,696	16,817	19,174	21,092	21,993	22,895	23,796	24,698
Inventories	11,461	16,047	22,863	26,331	30,228	34,591	39,439	43,383	45,238	47,092	48,946	50,801
Accounts receivable, net & other current assets, gross	-	-	16,700	19,234	22,080	25,267	28,809	31,689	33,044	34,398	35,753	37,108
Less: Allowance for doubtful accounts receivable	-	-	515	594	681	780	889	978	1,020	1,062	1,103	1,145
Accounts receivable, net & other current assets, net	8,339	13,164	15,791	18,187	20,878	23,892	27,240	29,964	31,245	32,526	33,806	35,087
Total current assets	**45,781**	**60,197**	**83,581**	**96,262**	**110,510**	**126,460**	**144,183**	**158,601**	**165,380**	**172,159**	**178,939**	**185,718**
Land & buildings	13,998	23,718	22,563	25,986	29,832	34,138	38,922	42,815	44,645	46,475	48,305	50,135
Equipment & internal-use software	25,989	38,387	41,813	48,157	55,285	63,264	72,131	79,344	82,735	86,127	89,518	92,909
Other corporate assets	649	2,390	1,288	1,483	1,703	1,949	2,222	2,444	2,548	2,653	2,757	2,862
Construction in progress	1,805	4,078	3,448	3,971	4,558	5,216	5,947	6,542	6,822	7,101	7,381	7,660
Gross property & equipment	42,441	68,573	69,112	79,597	91,378	104,567	119,222	131,144	136,750	142,355	147,961	153,567
Less accumulated depreciation	13,327	19,707	19,350	22,285	25,584	29,276	33,379	36,717	38,287	39,856	41,425	42,995
Property & equipment, net	29,114	48,866	49,762	57,312	65,795	75,291	85,843	94,427	98,463	102,499	106,536	110,572
Goodwill	3,784	13,350	10,065	11,592	13,308	15,229	17,363	19,099	19,916	20,732	21,549	22,365
Other assets	4,723	8,897	8,412	9,688	11,122	12,728	14,512	15,963	16,645	17,327	18,010	18,692
Total assets	**83,402**	**131,310**	**151,821**	**174,855**	**200,735**	**229,708**	**261,900**	**288,090**	**300,404**	**312,718**	**325,032**	**337,346**
Accounts payable	25,309	34,616	47,294	54,469	62,531	71,556	81,584	89,743	93,579	97,415	101,251	105,087
Accrued expenses & other current liabilities	13,739	18,170	24,542	28,265	32,449	37,132	42,336	46,569	48,560	50,551	52,541	54,532
Unearned revenue	4,768	5,097	6,253	7,202	8,268	9,461	10,787	11,866	12,373	12,880	13,387	13,894
Total current liabilities	**43,816**	**57,883**	**78,088**	**89,936**	**103,247**	**118,149**	**134,707**	**148,178**	**154,512**	**160,845**	**167,179**	**173,513**
Long-term debt	7,694	24,743	19,361	22,298	25,598	29,293	33,398	36,738	38,308	39,879	41,449	43,019
Long-term capital lease obligations	5,080	8,438	8,526	9,819	11,273	12,900	14,707	16,178	16,870	17,561	18,253	18,944
Long-term financing lease obligations	2,439	4,745	3,878	4,466	5,127	5,867	6,689	7,358	7,673	7,987	8,302	8,616
Construction liability	714	1,350	1,299	1,496	1,717	1,965	2,240	2,464	2,570	2,675	2,781	2,886
Tax contingencies	1,395	1,004	1,802	2,076	2,383	2,727	3,109	3,420	3,566	3,712	3,858	4,004
Long-term deferred tax liabilities	392	990	1,875	2,160	2,479	2,837	3,235	3,558	3,710	3,862	4,014	4,167
Other long-term liabilities	2,587	4,448	4,002	4,609	5,291	6,054	6,903	7,593	7,918	8,242	8,567	8,891
Other long-term liabilities	12,607	20,975	21,381	24,625	28,269	32,350	36,883	40,572	42,306	44,040	45,774	47,508
Total liabilities	**64,117**	**103,601**	**118,830**	**136,859**	**157,115**	**179,792**	**204,989**	**225,488**	**235,126**	**244,764**	**254,402**	**264,040**
Common stock	5	5	5	5	5	5	5	5	5	5	5	5
Treasury stock, at cost	1,837	1,837	4,358	5,019	5,762	6,594	7,518	8,270	8,624	8,977	9,331	9,684
Additional paid-in capital	17,186	21,389	30,859	35,541	40,801	46,690	53,233	58,556	61,059	63,562	66,065	68,568
Foreign currency translation adjustments, net of tax	- 1,001	- 468	- 1,234	- 1,422	- 1,632	- 1,867	- 2,129	- 2,342	- 2,442	- 2,542	- 2,642	- 2,743
Accumulated other comprehensive income (loss)	- 985	- 484	- 1,231	- 1,417	- 1,627	- 1,862	- 2,123	- 2,335	- 2,435	- 2,535	- 2,634	- 2,734
Retained earnings (accumulated deficit)	4,916	8,636	7,709	8,879	10,193	11,664	13,299	14,629	15,254	15,879	16,505	17,130
Total stockholders' equity (deficit)	**19,285**	**27,709**	**32,991**	**37,996**	**43,620**	**49,916**	**56,911**	**62,603**	**65,278**	**67,954**	**70,630**	**73,306**
Total liabilities & Equity	**83,402**	**131,310**	**151,821**	**174,855**	**200,735**	**229,708**	**261,900**	**288,090**	**300,404**	**312,718**	**325,032**	**337,346**
Cash & cash equivalents	23%	16%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%
Marketable securities	8%	8%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%
Inventories	14%	12%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Accounts receivable, net & other current assets, gross	-	-	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%
Less: Allowance for doubtful accounts receivable	-	-	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Accounts receivable, net & other current assets, net	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Total current assets	55%	46%	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%
Land & buildings	17%	18%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Equipment & internal-use software	31%	29%	28%	28%	28%	28%	28%	28%	28%	28%	28%	28%
Other corporate assets	1%	2%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Construction in progress	2%	3%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Gross property & equipment	51%	52%	46%	46%	46%	46%	46%	46%	46%	46%	46%	46%
Less accumulated depreciation	16%	15%	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%
Property & equipment, net	35%	37%	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%
Goodwill	5%	10%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%
Other assets	6%	7%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%
Total assets	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Accounts payable	30%	26%	31%	31%	31%	31%	31%	31%	31%	31%	31%	31%
Accrued expenses & other current liabilities	16%	14%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%
Unearned revenue	6%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
Total current liabilities	53%	44%	51%	51%	51%	51%	51%	51%	51%	51%	51%	51%
Long-term debt	9%	19%	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%
Long-term capital lease obligations	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%
Long-term financing lease obligations	3%	4%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Construction liability	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Tax contingencies	2%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Long-term deferred tax liabilities	0%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Other long-term liabilities	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Other long-term liabilities	15%	16%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%
Total liabilities	77%	79%	78%	78%	78%	78%	78%	78%	78%	78%	78%	78%
Common stock	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Treasury stock, at cost	2%	1%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Additional paid-in capital	21%	16%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Foreign currency translation adjustments, net of tax	-1%	0%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Accumulated other comprehensive income (loss)	-1%	0%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Retained earnings (accumulated deficit)	6%	7%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Total stockholders' equity (deficit)	23%	21%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%
Total liabilities & Equity	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

C. Cash Flow Statement (Pro-forma)[10]

	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**16,264**	**19,334**	**19,809**	**22,869**	**26,393**	**30,439**	**35,068**	**40,347**	**46,153**	**52,208**	**58,510**	**65,061**
OPERATING ACTIVITIES:												
Net income	2,371	3,033	10,703	12,327	14,151	16,194	18,463	20,309	21,177	22,046	22,914	23,782
Adjustments to reconcile net income to net cash from operating activities:												
Dep of PPE & intanglibes IP	4,746	11,478	13,271	15,284	17,547	20,079	22,893	25,182	26,259	27,335	28,412	29,488
Stock-based compensation	1,497	4,215	4,215	4,215	4,215	4,215	4,215	4,215	4,215	4,215	4,215	4,215
Other operating expense, net	129	202	206	237	272	311	355	390	407	424	440	457
Other expense (income), net	- 20	- 292	- 338	- 389	- 446	- 511	- 582	- 641	- 668	- 695	- 723	- 750
Deferred income taxes	- 246	- 29	- 29	- 29	- 29	- 29	- 29	- 29	- 29	- 29	- 29	- 29
Changes in operating assets and liabilities:												
Inventories	- 1,426	- 3,583	- 3,583	- 3,583	- 3,583	- 3,583	- 3,583	- 3,583	- 3,583	- 3,583	- 3,583	- 3,583
Accounts receivable, net and other	- 3,367	- 4,786	- 4,786	- 4,786	- 4,786	- 4,786	- 4,786	- 4,786	- 4,786	- 4,786	- 4,786	- 4,786
Accounts payable	5,030	7,175	7,175	7,175	7,175	7,175	7,175	7,175	7,175	7,175	7,175	7,175
Accrued expenses and other	1,724	283	283	283	283	283	283	283	283	283	283	283
Unearned revenue	1,955	738	4,900	6,140	7,533	9,093	10,827	12,237	12,900	13,563	14,226	14,889
Net cash provided by (used in) operating activities	**17,272**	**18,434**	**21,313**	**24,547**	**28,180**	**32,248**	**36,767**	**40,444**	**42,172**	**43,901**	**45,630**	**47,358**
INVESTING ACTIVITIES:												
Purchases of property and equipment, including internal-use software and webs	- 7,804	- 11,955	- 13,822	- 15,920	- 18,276	- 20,914	- 23,844	- 26,229	- 27,350	- 28,471	- 29,592	- 30,713
Proceeds from property and equipment incentives	1,067	1,897	1,897	1,897	1,897	1,897	1,897	1,897	1,897	1,897	1,897	1,897
Acquisitions, net of cash acquired, and other	- 116	- 13,972	- 13,972	- 13,972	- 13,972	- 13,972	- 13,972	- 13,972	- 13,972	- 13,972	- 13,972	- 13,972
Sales and maturities of marketable securities	4,733	9,988	9,988	9,988	9,988	9,988	9,988	9,988	9,988	9,988	9,988	9,988
Purchases of marketable securities	- 7,756	- 13,777	- 5,882	- 7,091	- 8,450	- 9,970	- 11,660	- 13,035	- 13,681	- 14,328	- 14,974	- 15,620
Net cash provided by (used in) investing activities	**- 9,876**	**- 27,819**	**- 21,792**	**- 25,098**	**- 28,812**	**- 32,971**	**- 37,592**	**- 41,351**	**- 43,118**	**- 44,886**	**- 46,653**	**- 48,421**
FINANCING ACTIVITIES:												
Proceeds from long-term debt and other	621	16,231	18,766	21,614	24,812	28,394	32,373	35,610	37,132	38,655	40,177	41,699
Repayments of long-term debt and other	- 354	- 1,372	- 1,372	- 1,372	- 1,372	- 1,372	- 1,372	- 1,372	- 1,372	- 1,372	- 1,372	- 1,372
Principal repayments of capital lease obligations	- 3,860	- 4,799	- 4,799	- 4,799	- 4,799	- 4,799	- 4,799	- 4,799	- 4,799	- 4,799	- 4,799	- 4,799
Principal repayments of finance lease obligations	- 147	- 200	- 9,057	- 11,368	- 13,964	- 16,870	- 20,099	- 22,726	- 23,961	- 25,196	- 26,431	- 27,666
Net cash provided by (used in) financing activities	**- 3,740**	**9,860**	**3,538**	**4,075**	**4,678**	**5,353**	**6,103**	**6,714**	**7,001**	**7,287**	**7,574**	**7,861**
Net increase (decrease) in cash and cash equivalents	3,444	1,188	2,299	2,661	2,353	2,789	2,965	2,973	3,033	3,113	3,159	3,219
CASH AND CASH EQUIVALENTS, END OF PERIOD	**19,920**	**19,809**	**22,869**	**26,393**	**30,439**	**35,068**	**40,347**	**46,153**	**52,208**	**58,510**	**65,061**	**71,860**

[10] Source: Mergent Online (www.mergentonline.com/)