

Rating **OUTPERFORM**
Price (13-Apr-17, US\$) 884.67
Target price (US\$) (from 900.00) 1050.00
52-week price range (US\$) 909.28 - 602.00
Market cap (US\$ m) 422,826.64
Target price is for 12 months.

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Amazon com Inc. (AMZN)

INCREASE TARGET PRICE

Recalibration of Model Following Annual Report Yields Higher FCF Estimates

- **Event:** We preview Amazon's 1Q17 results – we have increased our price target objective for AMZN shares to \$1,050 versus prior \$900 as we recalibrate our model following the annual disclosure of balance sheet and cash flow items for AWS as well as the e-commerce operations. Our FY17 EPS estimate is now \$11.30 vs. prior \$12.08.
- **Investment Case:** Although our operating profit estimates for 2Q17 & 3Q17 decrease as we take into account Amazon's ongoing investments into content, fulfillment centers, and data centers, the strategic and product-driven rationale behind these should already be well-familiar to investors. As far as we are concerned, this push to invest serves as positive demand indicators across its consumer and enterprise-facing businesses. As we have previously called out, we believe that Amazon will report a second derivative change in its operating margin, i.e. the amount of margin compression as implied in the 2Q17 guidance will start to abate as it has established a pattern of investing (in either fulfillment centers or data centers) and growing into the larger infrastructure. We maintain our Outperform rating and our updated investment thesis for AMZN shares is predicated on the following longer-term factors 1) re-establishment of e-commerce segment operating margin expansion as Amazon grows into its larger infrastructure, 2) ongoing margin benefit due to shipping loss moderation, and 3) upward bias to AWS revenue forecasts and likely more moderate deceleration path as suggested by ongoing capital intensity in the business.
- **Valuation:** We maintain our Outperform rating and our DCF-based target price which is based on a 10.5% WACC and 3% terminal growth is now \$1,050 vs. prior \$900. Higher-than-expected capital intensity for either the e-commerce platform or AWS is a risk to our estimates.

Share price performance



On 13-Apr-2017 the S&P 500 INDEX closed at 2328.95
Daily Apr15, 2016 - Apr13, 2017, 04/15/16 = US\$625.89

Quarterly EPS	Q1	Q2	Q3	Q4
2016A	2.39	3.51	2.21	3.44
2017E	2.35	2.84	2.44	3.66
2018E	3.21	3.90	3.57	5.28

Financial and valuation metrics

Year	12/16A	12/17E	12/18E	12/19E
EPS (Excl. ESO) (US\$)	11.54	11.30	15.97	22.47
EPS (CS adj.,)	11.54	11.30	15.97	22.47
Prev. EPS (CS adj., US\$)	-	12.08	16.39	22.58
P/E (CS adj.) (x)	76.7	78.3	55.4	39.4
P/E rel. (CS adj., %)	376.1	421.9	335.0	262.6
Revenue (US\$ m)	135,987.0	160,438.3	190,817.6	224,968.7
EBITDA (US\$ m)	12,303.0	14,713.4	20,868.0	28,654.6
Net Debt (US\$ m)	-11,640	-20,133	-33,482	-53,175
OCFPS (US\$)	33.83	42.96	54.67	68.71
P/OCF (x)	22.2	20.6	16.2	12.9
Number of shares (m)	477.95	Price/Sales (x)		3.01
BV/share (Next Qtr., US\$)	44.2	P/BVPS (x)		19.7
Net debt (Next Qtr., US\$ m)	3,846.1	Dividend (current, US\$)		-
Dividend yield (%)	-			-

Source: Company data, Thomson Reuters, Credit Suisse estimates

DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, LEGAL ENTITY DISCLOSURE AND THE STATUS OF NON-US ANALYSTS. US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

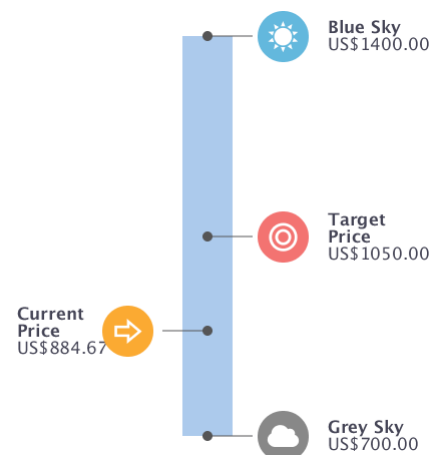
Amazon com Inc. (AMZN)

Price (13 Apr 2017): **US\$884.67**; Rating: **OUTPERFORM**; Target Price: (from **US\$900.00**) **US\$1,050.00**; Analyst: **Stephen Ju**

Income Statement	12/16A	12/17E	12/18E	12/19E
Revenue (US\$ m)	135,987.0	160,438.3	190,817.6	224,968.7
Sales	135,987.0	160,438.3	190,817.6	224,968.7
EBITDA	12,303.0	14,713.4	20,868.0	28,654.6
Operating profit	4,186.0	3,440.1	6,277.6	10,564.0
Recurring profit	3,892.0	2,991.5	5,816.6	10,099.9
Cash Flow	12/16A	12/17E	12/18E	12/19E
Cash flow from operations	16,442	21,099	27,306	34,904
CAPEX	(6,736)	(7,445)	(7,817)	(8,130)
Free cashflow to the firm	9,706	13,654	19,489	26,774
Cash flow from investments	(9,876)	(7,445)	(7,817)	(8,130)
Net share issue/(repurchase)	0	0	0	0
Dividends paid	0	0	0	0
Issuance (retirement) of debt	-	-	-	-
Other	(2,370)	(5,161)	(6,140)	(7,081)
Cashflow from financing activities	(2,370)	(5,161)	(6,140)	(7,081)
Effect of exchange rates	(211)	0	0	0
Changes in Net Cash/Debt	3,985	8,493	13,349	19,693
Net debt at end	(11,640)	(20,133)	(33,482)	(53,175)
Balance Sheet (\$US)	12/16A	12/17E	12/18E	12/19E
Assets				
Other current assets	6,647	6,647	6,647	6,647
Total current assets	45,781	57,110	73,878	97,269
Total assets	83,402	97,526	117,749	142,359
Liabilities				
Short-term debt	0	0	0	0
Total current liabilities	43,816	52,503	62,470	73,637
Long-term debt	7,694	7,694	7,694	7,694
Total liabilities	64,117	70,903	82,903	96,069
Shareholder equity	19,285	26,623	34,846	46,290
Total liabilities and equity	83,402	97,526	117,749	142,359
Net debt	(11,640)	(20,133)	(33,482)	(53,175)
Per share	12/16A	12/17E	12/18E	12/19E
No. of shares (wtd avg)	486	491	499	508
CS adj. EPS	11.54	11.30	15.97	22.47
Prev. EPS (US\$)	-	12.08	16.39	22.58
Dividend (US\$)	0.00	0.00	0.00	0.00
Free cash flow per share	19.97	27.80	39.02	52.71
Earnings	12/16A	12/17E	12/18E	12/19E
Sales growth (%)	27.1	18.0	18.9	17.9
EBIT growth (%)	87.5	(17.8)	82.5	68.3
Net profit growth (%)	82.8	(1.0)	43.8	43.0
EPS growth (%)	83.4	(2.1)	41.4	40.6
EBIT margin (%)	3.1	2.1	3.3	4.7
Valuation	12/16A	12/17E	12/18E	12/19E
EV/Sales (x)	3.02	2.51	2.04	1.64
EV/EBIT (x)	98.2	117.1	62.0	35.0
P/E (x)	76.7	78.3	55.4	39.4
Quarterly EPS	Q1	Q2	Q3	Q4
2016A	2.39	3.51	2.21	3.44
2017E	2.35	2.84	2.44	3.66
2018E	3.21	3.90	3.57	5.28

Company Background
Amazon.com is a customer-centric company for 3 primary customer sets: consumers, sellers & enterprises. In addition, it generates revenue through other marketing and promotional services, such as online advertising, and co-branded credit card agreements.

Blue/Grey Sky Scenario



Our Blue Sky Scenario (US\$) (from 1230.00) 1400.00

We have also elected to run a blue sky/grey sky scenario for AMZN shares using historic Free Cash Flow Yield on next twelve month estimates – AMZN shares have traded in a range of ~1.7%-4.0% with an average of ~2.6% and a standard deviation of ~0.6%. In terms of upside potential, we think of where we are going to be at the end of 2017, we apply a 2.0% to our 2018 FCF of \$13.6 billion and derive a blue sky scenario of \$1400.

Our Grey Sky Scenario (US\$) (from 615.00) 700.00

In terms of downside potential, we apply a peak FCF Yield of 4.0% to our 2018 FCF estimate of \$13.6 billion, and we derive a grey sky scenario of \$700.

Share price performance



On 13-Apr-2017 the S&P 500 INDEX closed at 2328.95
Daily Apr15, 2016 - Apr13, 2017, 04/15/16 = US\$625.89

Source: Company data, Thomson Reuters, Credit Suisse estimates

Amazon.com Inc. (AMZN) – Recalibration of Model Following Annual Report Yields Higher FCF Estimates

We have increased our price target objective for AMZN shares from \$900 to \$1,050 as we once again recalibrate our model following the annual disclosure of balance sheet and cash flow items for AWS as well as the e-commerce operations.

Setting aside the impact from foreign exchange rates, the fundamental changes to our model include the following items:

- Moderated long-term deceleration path for AWS growth – AWS rolled through price cuts in specific products during 4Q16 which should see full impact to revenue growth for 1Q17-3Q17; 4Q17 should directionally accelerate sequentially from 3Q17 all things being equal
- Decreased the trajectory of increase in our Technology and Content expense projections – while our T&C expense projection for AWS remain at ~\$11b for 2017, our forecast for the balance of the businesses has decreased modestly to \$7.6b vs. prior \$8.0b (versus \$5.9b in 2016)
- Updated asset base for both AWS and e-commerce operations as disclosed in the 10-k, as well as the mix of CapEx (in-cash-flow-statement versus acquired via capital lease and acquired via other other leases)

The net result of the above changes are summarized in the table below for 1Q17, 2017, and 2018 – as is our usual practice we isolate the delta due to FX versus fundamentals:

Figure 1: Amazon.com Inc. – CS Estimate Changes

in millions, unless otherwise stated

	1Q17 Prior	1Q17 FX Only	% Δ	1Q17 Current	% Δ	2017 Prior	2017 FX Only	% Δ	2017 Current	% Δ	2018 Prior	2018 FX Only	% Δ	2018 Current	% Δ
Media	5866.4	5805.8	-1.0%	5822.2	-0.8%	24876.4	24715.1	-0.6%	24670.3	-0.8%	25836.3	25670.4	-0.6%	25624.4	-0.8%
EGM	24782.7	24607.5	-0.7%	24654.2	-0.5%	117731.3	117214.5	-0.4%	117073.8	-0.6%	141610.8	140982.0	-0.4%	140811.0	-0.6%
AWS	3528.3	3528.3	0.0%	3528.3	0.0%	16801.1	16801.1	0.0%	16977.9	1.1%	22261.5	22261.5	0.0%	22495.8	1.1%
Other	361.4	360.2	-0.3%	360.6	-0.2%	1721.0	1717.3	-0.2%	1716.3	-0.3%	1893.0	1887.5	-0.3%	1886.5	-0.3%
Net Revenue	34538.8	34301.7	-0.7%	34365.3	-0.5%	161129.8	160448.0	-0.4%	160438.3	-0.4%	191601.6	190801.5	-0.4%	190817.6	-0.4%
Cost of Revenue	21875.0	21706.7	-0.8%	21751.8	-0.6%	102617.2	102136.2	-0.5%	101995.7	-0.6%	119328.3	118770.1	-0.5%	118531.1	-0.7%
Gross Profit	12663.8	12595.0	-0.5%	12613.5	-0.4%	58512.6	58311.8	-0.3%	58442.6	-0.1%	72273.3	72031.4	-0.3%	72286.4	0.0%
CSOI	1331.8	1314.6	-1.3%	1433.0	7.6%	7630.5	7573.3	-0.7%	7060.7	-7%	10795.5	10720.6	-0.7%	10505.3	-3%
Adjusted EBITDA	3900.4	3883.2	-0.4%	3919.6	0.5%	19050.2	18993.0	-0.3%	18167.9	-4.6%	25287.7	25212.7	-0.3%	24929.6	-1.4%
Pro Forma EPS	\$2.12	\$2.09	-1.2%	\$2.35	11.0%	\$12.08	\$11.99	-0.7%	\$11.30	-6.4%	\$16.39	\$16.28	-0.7%	\$15.97	-2.5%

Source: Company data, Credit Suisse estimates

Although our operating profit and CSOI estimate for 2Q17 and 3Q17 decrease as we take into account Amazon's ongoing investments into content, fulfillment centers, and data centers, as we have noted previously the strategic and product-driven rationale behind these should already be well-familiar to investors. And as far as we are concerned, this push to invest should serve as positive demand indicators across its consumer and enterprise-facing businesses.

Furthermore, as we have called out before, we believe that Amazon will report a second derivative change in its operating margin. In other words, the amount of margin compression as implied in the 2Q17 guidance will start to abate as the company has established a pattern of investing (in either fulfillment centers or data centers) and growing into the larger infrastructure.

And our long-term investment thesis for AMZN shares remain the following:

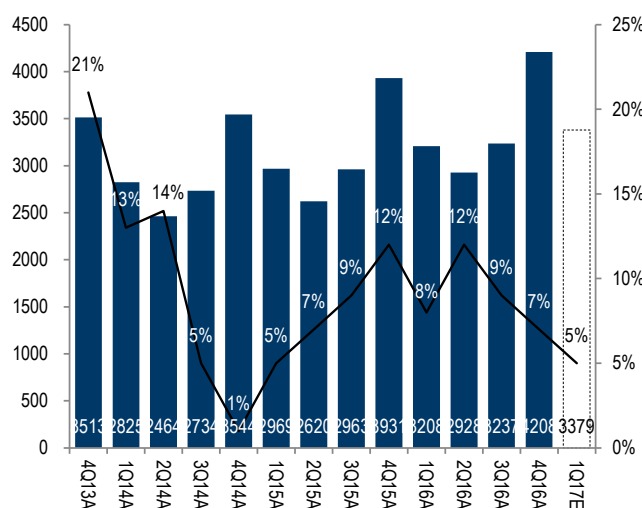
- Re-establishment of e-commerce segment operating margin expansion as Amazon grows into its larger infrastructure

- Ongoing margin benefit due to shipping loss moderation
- Upward bias to AWS revenue forecasts and likely more moderate deceleration path as suggested by ongoing capital intensity in the business

Changes to Estimates

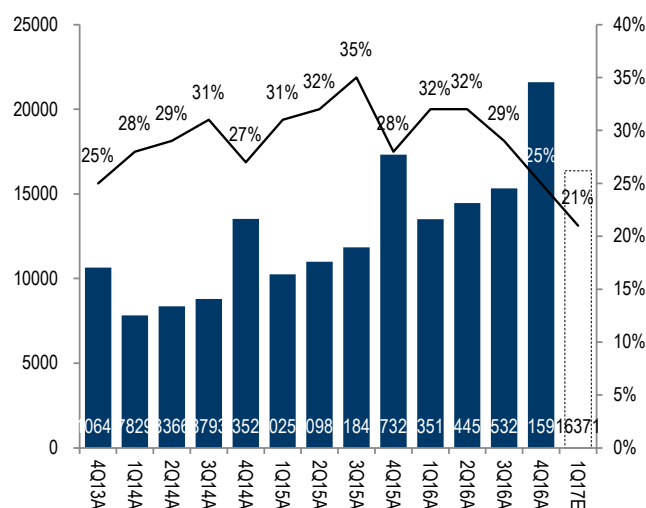
Looking nearer-term, the quarterly key metrics for Amazon are growth in North American and International Media, EGM, as well as AWS revenue, FX-neutral growth rates, as well as core e-commerce gross profit dollars as well as CSOI. Our estimates for 1Q17 are as shown below:

Figure 2: Amazon.com, Inc. – Quarterly North America Media Revenue and Year Over Year Growth
USD in millions



Source: Company data, Credit Suisse estimates

Figure 3: Amazon.com, Inc. – Quarterly North America EGM Revenue and FX-Neutral Year Over Year Growth
USD in millions

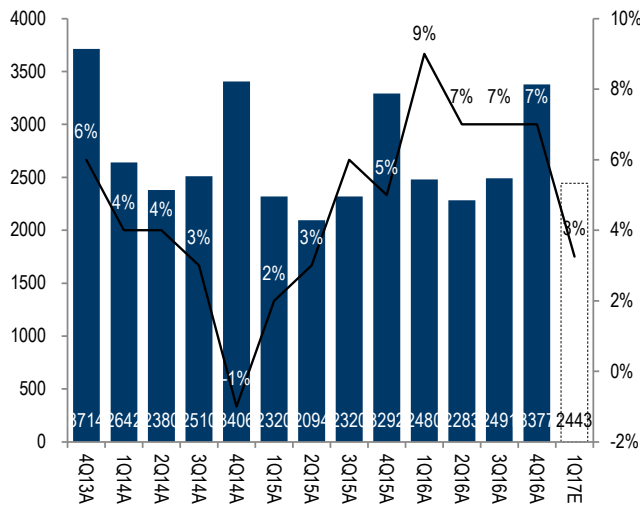


Source: Company data, Credit Suisse estimates

We are forecasting North American Media revenue to grow at 5% year over year to reach \$3.38 billion in 1Q17 – this is versus the 7% growth for 4Q16 and 8% of a year ago. Our projection for North American EGM revenue is \$16.4 billion in 1Q17, which reflects a 21% growth rate. This is versus 25% for 4Q16 and 32% of a year ago.

Figure 4: Amazon.com, Inc. – Quarterly International Media Revenue and FX-Neutral Year Over Year Growth

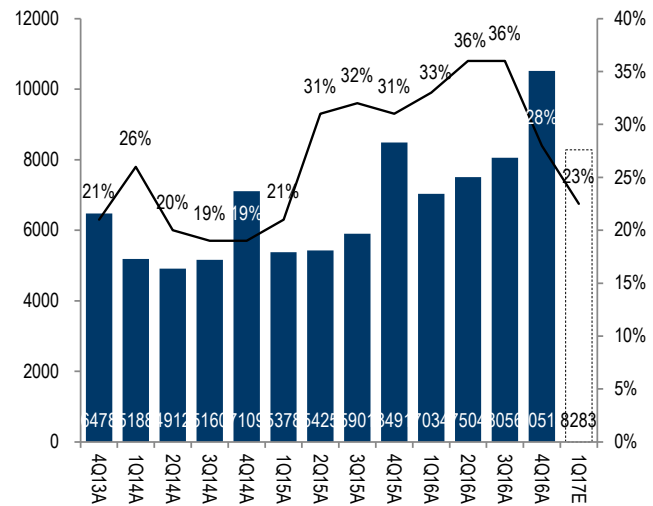
USD in millions



Source: Company data, Credit Suisse estimates

Figure 5: Amazon.com, Inc. – Quarterly International EGM Revenue and FX-Neutral Year Over Year Growth

USD in millions

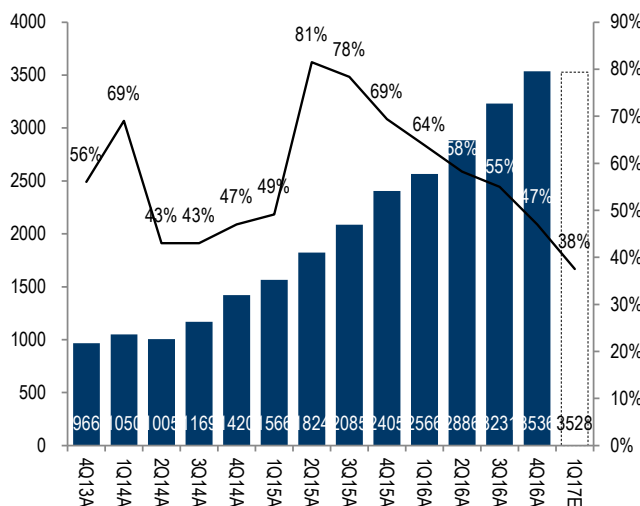


Source: Company data, Credit Suisse estimates

We are forecasting International Media to grow by 3.3% year over year on an FX-neutral basis to reach \$2.44 billion in 1Q17; this is versus the 7% growth for 4Q16 and 9% of a year ago. Our projection for International EGM revenue is \$8.28 billion in 1Q17, which reflects 22.5% growth on an FX-neutral basis – this compares to 28% for 4Q16 and 33% of a year ago.

Figure 6: Amazon.com, Inc. – Quarterly AWS Revenue and Year Over Year Growth

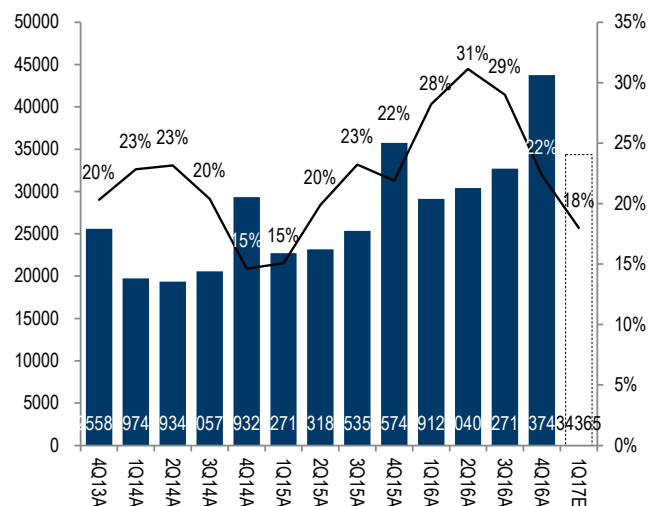
USD in millions



Source: Company data, Credit Suisse estimates

Figure 7: Amazon.com, Inc. – Quarterly Net Revenue and Year Over Year Growth

USD in millions

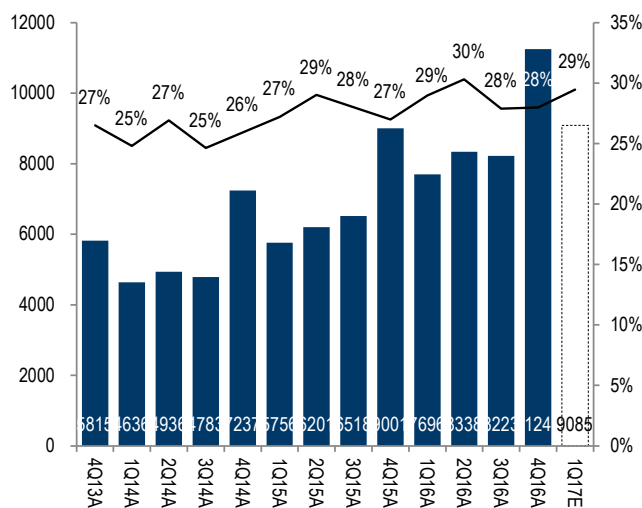


Source: Company data, Credit Suisse estimates

For AWS we are forecasting revenue to grow 38% to reach \$3.53 billion in 4Q16 – this is versus the 47% growth for 4Q16 and 64% of a year ago.

Figure 8: Amazon.com, Inc. – Quarterly Core E-Commerce Gross Profit and Margin

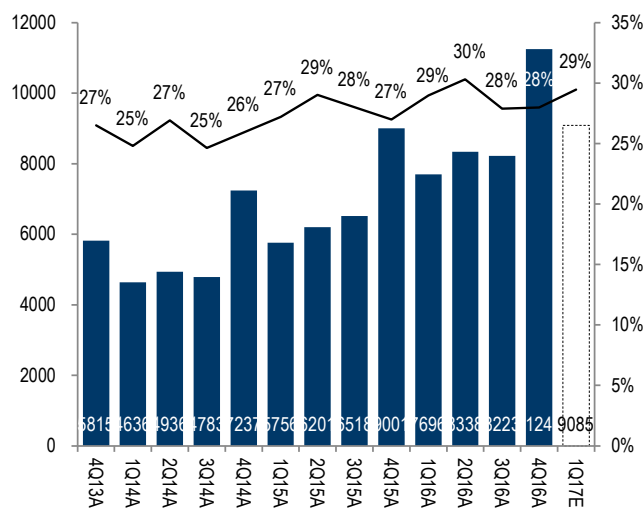
USD in millions



Source: Company data, Credit Suisse estimates

Figure 9: Amazon.com, Inc. – Quarterly Consolidated Segment Operating Income and Margin

USD in millions



Source: Company data, Credit Suisse estimates

Adding it all up, our net revenue forecast for 1Q17 stands at \$34.4 billion, which reflects 18% growth. Once again we have conservatively modeled only modest year over year gross margin expansion for the core e-commerce franchise and our CSOI estimate stands at 1.43 billion.

Our estimates versus consensus for revenue and adjusted EBITDA are as shown below for 1Q17, FY17, FY18.

Figure 10: Amazon.com, Inc. – Credit Suisse vs. Consensus Estimates

	1Q17			FY17			FY18		
	CS	Consensus	% Diff	CS	Consensus	% Diff	CS	Consensus	% Diff
Revenue	34365.3	35303.0	-2.7%	160438.3	165246.0	-2.9%	190817.6	199551.0	-4.4%
Adjusted EBITDA	3919.6	4085.0	-4.0%	18167.9	19392.0	-6.3%	24929.6	24850.0	0.3%
Adjusted EPS	\$2.35	\$2.28	2.9%	\$11.30	\$12.62	-10.5%	\$15.97	\$18.12	-11.9%

Source: Company data, Credit Suisse estimates, the BLOOMBERG PROFESSIONAL™ service

Valuation

In-line with the valuation methodology we have used with the rest of our coverage universe, we have based our target price on DCF, which now suggests \$1,050 vs. prior \$900 as we modify our estimates. We have used a weighted average cost of capital of 10.5% and a terminal growth rate expectation of 3%.

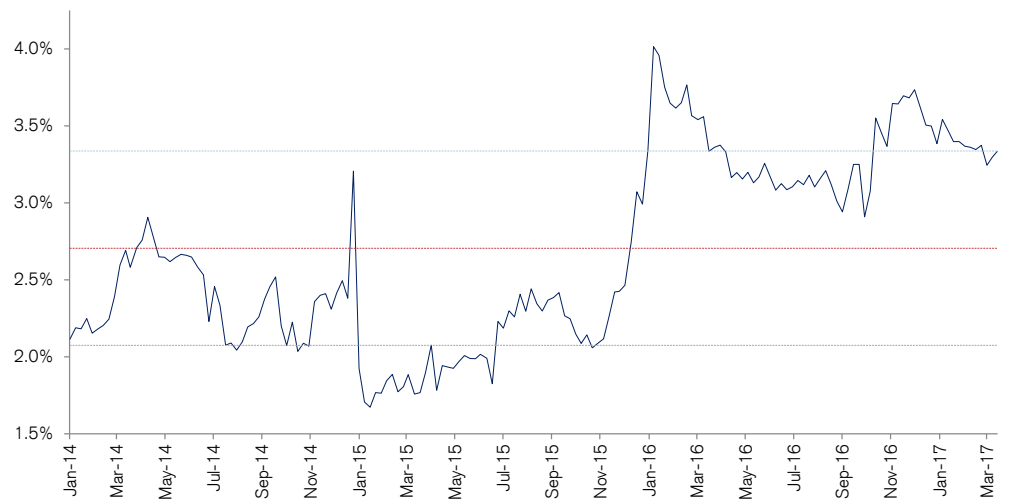
Figure 11: Amazon.com, Inc. – Discounted Cash Flow Analysis*US\$ in millions, unless otherwise stated*

	2017E	2018E	2019E	2020E	2021E	2022E	CAGR '17-'22
EBITDA	14713.4	20868.0	28654.6	38945.2	51607.6	66903.3	35.4%
Net Income	1828.6	3645.5	6402.7	10657.1	16339.9	23551.2	66.7%
Depreciation & Amortization	11273.3	14590.4	18090.6	21823.6	25718.2	29947.4	21.6%
Other Non-Cash Charges (Benefits)	2146.0	2523.1	2940.2	3356.2	3794.2	4247.5	14.6%
Interest Expense (Income)	448.5	461.1	464.1	416.4	363.8	239.6	
Changes in Operating Assets & Liabilities	5851.2	6547.2	7470.7	8258.7	9045.3	9769.5	10.8%
Unlevered Cash Flows	21547.6	27767.2	35368.3	44512.0	55261.5	67755.2	25.8%
Capital Expenditures	15506.6	16747.0	17953.1	19104.2	20179.5	21158.8	6.4%
Unlevered Free Cash Flows	6041.0	11020.2	17415.2	25407.9	35081.9	46596.4	50.5%
Y/Y % Change	90.2%	82.4%	58.0%	45.9%	38.1%	32.8%	
Weighted Average Cost of Capital	10.5%						
Perpetual UFCF Growth Rate ("G")	3.0%						
	2017E						
NPV of Unlevered Free Cash Flows	100923						
Present Value of Terminal Value	388434						
Enterprise Value	489357						
Off-Balance Sheet Assets	0						
Adjusted Enterprise Value	489357						
Year End Net Debt (Cash)	(26780)						
Equity Value	516137						
Diluted Shares Outstanding	491.1						
Equity Value Per Share	\$1051						

Source: Company data, Credit Suisse estimates

As previously noted, we have elected to add as capital expenditure Amazon's spend financed by capital and financing leases and the corresponding amounts outstanding on the long-term liabilities disclosed on the balance sheet as part of net debt.

We have also elected to run a blue sky/grey sky scenario for AMZN shares using historic Free Cash Flow Yield on next twelve month estimates – AMZN shares have traded in a range of ~1.7%-4.0% with an average of ~2.6% and a standard deviation of ~0.6%. As we think about where we will be at the end of 2017, we apply a high end FCF Yield of 4% to our 2018 FCF estimate of \$13.6 billion, and we derive a grey sky scenario of \$700. In terms of upside potential, we apply a 2.0% FCF Yield (average less one standard deviation) to the same and derive a blue sky scenario of \$1,400.

Figure 12: Amazon.com, Inc. – Historical FCF Yield

Source: Credit Suisse estimates, Thomson Reuters Datastream

Risks to our price target for AMZN shares include the following factors:

- Rise in competitive intensity from any number of Amazon's online e-commerce and offline retail competitors
- Higher-than-expected capital intensity for either the e-commerce platform or AWS, which will negatively impact our free cash flow estimates
- Deterioration in consumer sentiment, which can negatively impact transaction velocity
- Greater-than-expected price cuts for AWS, which we currently project at ~20% year over year

Figure 13: Amazon.com Inc. – Quarterly Income Statement

US\$ in millions, unless otherwise stated

	2016A				2017E				2018E			
	1Q16A	2Q16A	3Q16A	4Q16A	1Q17E	2Q17E	3Q17E	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E
Total Net Sales	29128.0	30404.0	32714.0	43741.0	34365.3	35723.0	38592.2	51757.9	40828.5	42609.5	46028.6	61350.9
Cost of Sales	18866.0	19180.0	21260.0	28958.0	21751.8	21989.0	24287.6	33967.4	25255.4	25613.5	28278.8	39383.4
Gross Profit	10262.0	11224.0	11454.0	14783.0	12613.5	13734.0	14304.7	17790.5	15573.1	16996.0	17749.8	21967.6
Operating Expenses:												
Fulfillment	3687.0	3878.0	4335.0	5719.0	5006.7	5285.1	5716.5	7104.2	6017.0	6349.4	6848.6	8433.5
Marketing	1436.0	1546.0	1738.0	2513.0	1681.7	1740.2	1900.0	2671.0	1898.7	1971.3	2152.4	3014.5
Technology and Content	3526.0	3880.0	4135.0	4545.0	4539.2	4955.9	5309.2	5831.2	5650.6	6143.4	6550.3	7135.1
General Administrative	497.0	580.0	639.0	717.0	726.2	755.9	768.1	845.5	862.3	900.0	914.6	1001.0
Amortization of Goodwill and Other Intangibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Remeasurements and Other	45.0	55.0	32.0	34.0	45.0	55.0	32.0	34.0	45.0	55.0	32.0	34.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Operating Expenses	9191.0	9939.0	10879.0	13528.0	11998.7	12792.1	13725.8	16485.8	14473.6	15419.2	16497.9	19618.1
Income From Operations	1071.0	1285.0	575.0	1255.0	614.8	941.9	578.8	1304.6	1099.5	1576.8	1251.9	2349.5
Interest Income	21.0	24.0	26.0	30.0	23.4	17.3	18.4	21.4	31.0	24.0	26.2	30.5
Interest Expense	117.0	116.0	118.0	133.0	128.0	131.0	133.4	136.5	139.0	141.8	144.0	148.0
Other Income (Expense), Net	81.0	(14.0)	8.0	14.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Non-Operating Income (Expense), Net	(15.0)	(106.0)	(84.0)	(89.0)	(104.6)	(113.7)	(115.0)	(115.1)	(108.0)	(117.8)	(117.9)	(117.5)
Pretax Income	1056.0	1179.0	491.0	1166.0	510.1	828.1	463.8	1189.5	991.5	1459.0	1134.0	2232.0
Income Tax	475.0	307.0	229.0	414.0	181.1	294.0	164.7	422.4	352.0	518.0	402.6	792.5
Cumulative Effect of Change in Accounting Principle	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity-Method Investment Activity, Net of Tax	68.0	15.0	10.0	3.0	71.4	15.8	10.5	3.2	75.0	16.5	11.0	3.3
Net Income (Loss)	513.0	857.0	252.0	749.0	257.6	518.3	288.6	764.0	564.5	924.4	720.4	1436.2
Basic EPS to Common	\$1.09	\$1.81	\$0.53	\$1.57	\$0.54	\$1.08	\$0.60	\$1.58	\$1.16	\$1.89	\$1.47	\$2.92
Basic Shares Outstanding	471.0	473.0	474.0	476.0	478.0	480.0	482.1	484.1	486.1	488.2	490.2	492.3
Diluted EPS	\$1.05	\$1.78	\$0.52	\$1.54	\$0.53	\$1.06	\$0.59	\$1.55	\$1.14	\$1.85	\$1.44	\$2.86
Shares Outstanding	490.0	482.8	485.0	486.0	488.1	490.1	492.2	494.3	496.3	498.4	500.5	502.6
EBITDA Reconciliation												
GAAP Operating Income	1071.0	1285.0	575.0	1255.0	614.8	941.9	578.8	1304.6	1099.5	1576.8	1251.9	2349.5
Depreciation and Amortization of PP&E	1827.0	1909.0	2084.0	2297.0	2531.6	2715.9	2905.0	3120.7	3338.5	3537.1	3741.0	3973.7
EBITDA	2898.0	3194.0	2659.0	3552.0	3146.4	3657.7	3483.8	4425.4	4438.0	5113.9	4992.9	6323.2
Nonrecurring Items	45.0	55.0	32.0	34.0	45.0	55.0	32.0	34.0	45.0	55.0	32.0	34.0
Amortization of Goodwill and Other Intangibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock-Based Compensation	544.0	768.0	776.0	887.0	773.2	803.8	868.3	1009.3	908.4	948.1	1024.1	1181.0
Pro Forma Operating Income - CSOI	1660.0	2108.0	1383.0	2176.0	1433.0	1800.6	1479.1	2347.9	2052.9	2579.9	2308.0	3564.5
Adjusted EBITDA	3442.0	3962.0	3435.0	4439.0	3919.6	4461.5	4352.2	5434.7	5346.4	6062.0	6017.0	7504.3
Pro forma Net Income Reconciliation												
Pro Forma Operating Income	1660.0	2108.0	1383.0	2176.0	1433.0	1800.6	1479.1	2347.9	2052.9	2579.9	2308.0	3564.5
Interest Income	21.0	24.0	26.0	30.0	23.4	17.3	18.4	21.4	31.0	24.0	26.2	30.5
Interest Expense	117.0	116.0	118.0	133.0	128.0	131.0	133.4	136.5	139.0	141.8	144.0	148.0
Other Income (Expense), Net	81.0	(14.0)	8.0	14.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Non-Operating Income (Expense), Net	(15.0)	(106.0)	(84.0)	(89.0)	(104.6)	(113.7)	(115.0)	(115.1)	(108.0)	(117.8)	(117.9)	(117.5)
Pretax Income	1645.0	2002.0	1299.0	2087.0	1328.3	1686.9	1364.1	2232.8	1944.9	2462.1	2190.2	3447.0
GAAP Income Tax Expense (Benefit)	475.0	307.0	229.0	414.0	181.1	294.0	164.7	422.4	352.0	518.0	402.6	792.5
Income Tax Adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pro Forma Net Income	1170.0	1695.0	1070.0	1673.0	1147.2	1392.8	1199.4	1810.5	1592.9	1944.0	1787.5	2654.5
Adjusted EPS - Diluted	\$2.39	\$3.51	\$2.21	\$3.44	\$2.35	\$2.84	\$2.44	\$3.66	\$3.21	\$3.90	\$3.57	\$5.28
YY % Change												
Total Net Sales	28.2%	31.1%	29.0%	22.4%	18.0%	17.5%	18.0%	18.3%	18.8%	19.3%	19.3%	18.5%
Cost of Sales	22.5%	26.5%	26.9%	19.0%	15.3%	14.6%	14.2%	17.3%	16.1%	16.5%	16.4%	15.9%
Gross Profit	40.2%	39.9%	33.1%	29.6%	22.9%	22.4%	24.9%	20.3%	23.5%	23.8%	24.1%	23.5%
Total Operating Expenses	30.1%	31.5%	32.7%	31.4%	30.5%	28.7%	26.2%	21.9%	20.6%	20.5%	20.2%	19.0%
Income From Operations	320.0%	176.9%	41.6%	13.3%	-42.6%	-26.7%	0.7%	4.0%	78.8%	67.4%	116.3%	80.1%
Pretax Income	4928.6%	225.7%	98.8%	24.3%	-51.7%	-29.8%	-5.5%	2.0%	94.4%	76.2%	144.5%	87.6%
Net Income (Loss)	-1000.0%	831.5%	219.0%	55.4%	-49.8%	-39.5%	14.5%	2.0%	119.1%	78.3%	149.6%	88.0%
Margins												
Gross Margin	35.2%	36.9%	35.0%	33.8%	36.7%	38.4%	37.1%	34.4%	38.1%	39.9%	38.6%	35.8%
GAAP Operating Margin	3.7%	4.2%	1.8%	2.9%	1.8%	2.6%	1.5%	2.5%	2.7%	3.7%	2.7%	3.8%
Pro Forma Operating Margin	5.7%	6.9%	4.2%	5.0%	4.2%	5.0%	3.8%	4.5%	5.0%	6.1%	5.0%	5.8%
Adjusted EBITDA Margin	11.8%	13.0%	10.5%	10.1%	11.4%	12.5%	11.3%	10.5%	13.1%	14.2%	13.1%	12.2%
Net Income Margin	1.8%	2.8%	0.8%	1.7%	0.7%	1.5%	0.7%	1.5%	1.4%	2.2%	1.6%	2.3%
Adjusted Net Income Margin	4.0%	5.6%	3.3%	3.8%	3.3%	3.9%	3.1%	3.5%	3.9%	4.6%	3.9%	4.3%

Source: Company data, Credit Suisse estimates

Figure 14: Amazon.com Inc. – Annual Income Statement

US\$ in millions, unless otherwise stated

	2015A	2016A	2017E	2018E	2019E	2020E	2021E	2022E	CAGR '17-'22
Total Net Sales	107007.0	135987.0	160438.3	190817.6	224968.7	263008.7	304701.6	349765.5	16.9%
Cost of Sales	71651.0	88264.0	101995.7	118531.1	136736.1	156069.8	176390.0	197430.7	
Gross Profit	35356.0	47723.0	58442.6	72286.4	88232.6	106938.9	128311.7	152334.9	21.1%
Operating Expenses:									
Fulfillment	13411.0	17619.0	23112.5	27648.6	32595.8	37952.2	43641.0	49699.9	
Marketing	5252.0	7233.0	7992.9	9036.9	10043.5	11019.1	12001.2	12895.5	
Technology and Content	12542.0	16086.0	20635.4	25479.4	30592.4	35831.1	41163.6	46552.9	
General Administrative	1747.0	2433.0	3095.8	3677.9	4271.0	4848.9	5450.4	6064.6	
Amortization of Goodwill and Other Intangibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Remeasurements and Other	171.0	166.0	166.0	166.0	166.0	166.0	166.0	166.0	
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Total Operating Expenses	33123.0	43537.0	55002.5	66008.8	77668.6	89817.4	102422.2	115378.9	16.0%
Income From Operations	2233.0	4186.0	3440.1	6277.6	10564.0	17121.5	25889.4	36956.0	60.8%
Interest Income	49.0	101.0	80.5	111.7	161.9	236.1	340.6	481.9	
Interest Expense	460.0	484.0	529.0	572.8	626.0	652.5	704.5	721.5	
Other Income (Expense), Net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Total Non-Operating Income (Expense), Net	(665.0)	(294.0)	(448.5)	(461.1)	(464.1)	(416.4)	(363.8)	(239.6)	
Pretax Income	1568.0	3892.0	2991.5	5816.6	10099.9	16705.1	25525.6	36716.3	
Income Tax	951.0	1425.0	1062.2	2065.2	3586.1	5931.3	9063.1	13036.5	
Cumulative Effect of Change in Accounting Principle	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Equity-Method Investment Activity, Net of Tax	21.0	96.0	100.8	105.8	111.1	116.7	122.5	128.6	
Net Income (Loss)	596.0	2371.0	1828.6	3645.5	6402.7	10657.1	16339.9	23551.2	66.7%
Basic EPS to Common	\$1.27	\$5.01	\$3.80	\$7.45	\$12.87	\$21.06	\$31.75	\$45.00	63.9%
Basic Shares Outstanding	467.5	473.5	481.0	489.2	497.5	506.0	514.6	523.3	
Diluted EPS	\$1.22	\$4.88	\$3.72	\$7.30	\$12.60	\$20.63	\$31.10	\$44.08	63.9%
Shares Outstanding	487.5	486.0	491.1	499.5	508.0	516.6	525.4	534.3	
EBITDA Reconciliation									
GAAP Operating Income	2233.0	4186.0	3440.1	6277.6	10564.0	17121.5	25889.4	36956.0	
Depreciation and Amortization of PP&E	6281.0	8117.0	11273.3	14590.4	18090.6	21823.6	25718.2	29947.4	
EBITDA	8514.0	12303.0	14713.4	20868.0	28654.6	38945.2	51607.6	66903.3	35.4%
Nonrecurring Items	171.0	166.0	166.0	166.0	166.0	166.0	166.0	166.0	
Amortization of Goodwill and Other Intangibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Stock-Based Compensation	2120.0	2975.0	3454.6	4061.6	4733.1	5402.8	6107.9	6837.6	
Pro Forma Operating Income - CSOI	4524.0	7327.0	7060.7	10505.3	15463.0	22690.3	32163.4	43959.5	44.2%
Adjusted EBITDA	10634.0	15278.0	18167.9	24929.6	33387.7	44347.9	57715.5	73740.9	32.3%
Pro forma Net Income Reconciliation									
Pro Forma Operating Income	4524.0	7327.0	7060.7	10505.3	15463.0	22690.3	32163.4	43959.5	
Interest Income	49.0	101.0	80.5	111.7	161.9	236.1	340.6	481.9	
Interest Expense	460.0	484.0	529.0	572.8	626.0	652.5	704.5	721.5	
Other Income (Expense), Net	(254.0)	89.0	0.0	0.0	0.0	0.0	0.0	0.0	
Total Non-Operating Income (Expense), Net	(665.0)	(294.0)	(448.5)	(461.1)	(464.1)	(416.4)	(363.8)	(239.6)	
Pretax Income	3859.0	7033.0	6612.1	10044.2	14998.9	22273.9	31799.5	43719.9	
GAAP Income Tax Expense (Benefit)	951.0	1425.0	1062.2	2065.2	3586.1	5931.3	9063.1	13036.5	
Income Tax Adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Pro Forma Net Income	3067.0	5608.0	5550.0	7979.0	11412.9	16342.6	22736.4	30683.4	
Adjusted EPS - Diluted	\$6.29	\$11.54	\$11.30	\$15.97	\$22.47	\$31.63	\$43.28	\$57.43	
Y/Y % Change									
Total Net Sales	20.2%	27.1%	18.0%	18.9%	17.9%	16.9%	15.9%	14.8%	
Cost of Sales	14.2%	23.2%	15.6%	16.2%	15.4%	14.1%	13.0%	11.9%	
Gross Profit	34.8%	35.0%	22.5%	23.7%	22.1%	21.2%	20.0%	18.7%	
Total Operating Expenses	27.1%	31.4%	26.3%	20.0%	17.7%	15.6%	14.0%	12.7%	
Income From Operations	1154.5%	87.5%	-17.8%	82.5%	68.3%	62.1%	51.2%	42.7%	
Pretax Income	-1500.0%	148.2%	-23.1%	94.4%	73.6%	65.4%	52.8%	43.8%	
Net Income (Loss)	-347.3%	297.8%	-22.9%	99.4%	75.6%	66.4%	53.3%	44.1%	
Margins									
Gross Margin	33.0%	35.1%	36.4%	37.9%	39.2%	40.7%	42.1%	43.6%	
GAAP Operating Margin	2.1%	3.1%	2.1%	3.3%	4.7%	6.5%	8.5%	10.6%	
Pro Forma Operating Margin	4.2%	5.4%	4.4%	5.5%	6.9%	8.6%	10.6%	12.6%	
Adjusted EBITDA Margin	9.9%	11.2%	11.3%	13.1%	14.8%	16.9%	18.9%	21.1%	
Net Income Margin	0.6%	1.7%	1.1%	1.9%	2.8%	4.1%	5.4%	6.7%	
Adjusted Net Income Margin	2.9%	4.1%	3.5%	4.2%	5.1%	6.2%	7.5%	8.8%	

Source: Company data, Credit Suisse estimates

Figure 15: Amazon.com Inc. – Cash Flow Statement

US\$ in millions, unless otherwise stated

	2015A	2016A	2017E	2018E	2019E	2020E	2021E	2022E
Operating Activities								
Net Income (Loss)	596.0	2371.0	1828.6	3645.5	6402.7	10657.1	16339.9	23551.2
Depreciation of Property and Equipment, Including Internal-Use Software	6281.0	8117.0	11273.3	14590.4	18090.6	21823.6	25718.2	29947.4
Amortization of Goodwill and Other Intangibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock-Based Compensation	2120.0	2975.0	3454.6	4061.6	4733.1	5402.8	6107.9	6837.6
Other Operating Expense (Income), Net	155.0	158.0	0.0	0.0	0.0	0.0	0.0	0.0
Losses (Gains) on Sales of Marketable Securities, Net	5.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Expense (Income), Net	244.0	(23.0)	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Income Taxes	82.0	(246.0)	0.0	0.0	0.0	0.0	0.0	0.0
Excess Tax Benefits from Stock-Based Compensation	(119.0)	(829.0)	(1308.6)	(1538.6)	(1792.9)	(2046.6)	(2313.7)	(2590.1)
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inventories	(2186.0)	(1426.0)	(1790.0)	(1680.0)	(1751.6)	(1741.3)	(1701.9)	(1623.3)
Accounts Receivable, Net and Other	(1755.0)	(3367.0)	(1045.7)	(1739.4)	(1945.6)	(2156.1)	(2350.5)	(2527.2)
Accounts Payable	4294.0	5030.0	5498.0	6210.4	7071.2	7800.6	8509.3	9150.8
Accrued Expenses and Other	910.0	1724.0	2910.6	2820.9	3050.5	3196.1	3324.4	3410.2
Addition to Unearned Revenue	7401.0	11931.0	278.4	935.3	1046.2	1159.4	1263.9	1358.9
Amortization of Previously Unearned Revenue	(6108.0)	(9976.0)	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Cash from Operating Activities	11920.0	16442.0	21099.0	27306.1	34904.1	44095.6	54897.6	67515.5
Investing Activities:								
Purchases of Property and Equipment	(4588.0)	(6736.0)	(7444.9)	(7817.1)	(8129.8)	(8373.7)	(8541.2)	(8626.6)
Acquisitions, Net of cash Acquired and Other	(795.0)	(117.0)	0.0	0.0	0.0	0.0	0.0	0.0
Sales and Maturities of Marketable Securities	3025.0	4733.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchases of Marketable Securities and Other	(4092.0)	(7756.0)	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Cash from Investing Activities	(6450.0)	(9876.0)	(7444.9)	(7817.1)	(8129.8)	(8373.7)	(8541.2)	(8626.6)
Financing Activities:								
Excess Tax Benefits from Stock-Based Compensation	119.0	829.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from Long-Term Debt and Other	353.0	620.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments of Long-Term Debt	(1652.0)	(355.0)	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from Issuance of Common Stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Cash from Financing Activities	(3763.0)	(2911.0)	(5161.1)	(6139.8)	(7081.3)	(8013.7)	(8947.5)	(9883.5)
Foreign-Currency Effect on Cash and Cash Equivalents	(374.0)	(211.0)	0.0	0.0	0.0	0.0	0.0	0.0
Net Increase (Decrease) in Cash and Cash Equivalents	1333.0	3444.0	8493.0	13349.2	19693.0	27708.2	37408.9	49005.4
Cash and Cash Equivalents, Beginning of Period	14557.0	15890.0	19334.0	27827.0	41176.2	60869.2	88577.3	125986.2
Cash and Cash Equivalents, End of Period	15890.0	19334.0	27827.0	41176.2	60869.2	88577.3	125986.2	174991.6
Property and Equipment Acquired Under Capital Leases	4717.0	5704.0	6790.9	7599.5	8442.9	9311.1	10192.2	11072.4
Property and Equipment Acquired Under Build-to-Suit Leases	544.0	1209.0	1270.7	1330.3	1380.3	1419.3	1446.1	1459.7

Source: Company data, Credit Suisse estimates

Figure 16: Amazon.com Inc. – Balance Sheet

US\$ in millions, unless otherwise stated

	2015A	2016A	2017E	2018E	2019E	2020E	2021E	2022E
Assets:								
Cash and Cash Equivalents	15890.0	19334.0	27827.0	41176.2	60869.2	88577.3	125986.2	174991.6
Marketable Securities	3918.0	6647.0	6647.0	6647.0	6647.0	6647.0	6647.0	6647.0
Inventories	10243.0	11461.0	13251.0	14931.1	16682.7	18423.9	20125.8	21749.1
Accounts Receivable, Net and Other	6423.0	8339.0	9384.7	11124.1	13069.7	15225.8	17576.3	20103.5
Deferred Tax Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Assets	36474.0	45781.0	57109.7	73878.3	97268.5	128874.0	170335.3	223491.2
Property and Equipment, Net								
Goodwill	3759.0	3784.0	3784.0	3784.0	3784.0	3784.0	3784.0	3784.0
Other Intangibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Tax Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Assets	3373.0	4723.0	5588.6	6624.5	7783.1	9067.1	10466.8	11971.8
Total Assets	65444.0	83402.0	97525.6	117749.3	142359.2	172659.3	209981.6	255853.9
Liabilities:								
Accounts Payable	20397.0	25309.0	30807.0	37017.4	44088.6	51889.2	60398.5	69549.3
Accrued Expenses and Other	10384.0	13739.0	16649.6	19470.5	22520.9	25717.0	29041.4	32451.6
Unearned Revenue	3118.0	4768.0	5046.4	5981.7	7027.9	8187.3	9451.3	10810.2
Interest Payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Portion of Long-Term Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities	33899.0	43816.0	52502.9	62469.6	73637.5	85793.5	98891.1	112811.1
Long-Term Debt	8235.0	7694.0	7694.0	7694.0	7694.0	7694.0	7694.0	7694.0
Other Long-Term Liabilities	9926.0	12607.0	10706.0	12739.6	14737.9	16711.2	18655.7	20558.1
Commitments and Contingencies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stockholder's Equity:								
Preferred Stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Common Stock	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Treasury Stock, At Cost	(1837.0)	(1837.0)	(1837.0)	(1837.0)	(1837.0)	(1837.0)	(1837.0)	(1837.0)
Additional Paid-in Capital	13394.0	17186.0	22695.1	27273.1	32314.2	37827.8	43768.0	50266.7
APIC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Plug	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Stock-Based Compensation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulated Other Comprehensive Loss	(723.0)	(985.0)	(985.0)	(985.0)	(985.0)	(985.0)	(985.0)	(985.0)
Retained Earnings	2545.0	4916.0	6744.6	10390.1	16792.7	27449.8	43789.8	67340.9
Total Stockholder's Equity	13384.0	19285.0	26622.7	34846.1	46289.9	62460.6	84740.8	114790.7
Total Liabilities and Stockholder's Equity	65444.0	83402.0	97525.6	117749.3	142359.2	172659.3	209981.6	255853.9

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 16-Apr-2017)

Amazon com Inc. (AMZN.OQ, \$884.67, OUTPERFORM, TP \$1050.0)

Disclosure Appendix

Analyst Certification

I, Stephen Ju, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for Amazon com Inc. (AMZN.OQ)

AMZN.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
25-Apr-14	303.83	439.00	O
25-Jul-14	324.01	431.00	
14-Oct-14	308.31	422.00	
24-Oct-14	287.06	395.00	
14-Jan-15	293.27	389.00	
30-Jan-15	354.53	410.00	
14-Apr-15	385.11	412.00	
24-Apr-15	445.10	480.00	
24-Jul-15	529.42	700.00	
09-Oct-15	539.80	720.00	
23-Oct-15	599.03	777.00	
12-Jan-16	617.89	800.00	
29-Apr-16	659.59	880.00	
29-Jul-16	758.81	920.00	
17-Oct-16	812.95	1050.00	
28-Oct-16	776.32	1000.00	
11-Jan-17	799.02	950.00	
03-Feb-17	810.20	900.00	



* Asterisk signifies initiation or assumption of coverage.

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Target Price and Rating

Valuation Methodology and Risks: (12 months) for Amazon com Inc. (AMZN.OQ)

Method: We use the discounted cash flow (DCF) method to calculate our \$1050 target price for AMZN. Our 5-year DCF uses a 3% terminal growth rate and a market-implied discount rate derived by discounting our unlevered FCF (free cash flow) estimates from 2017 through 2022 to arrive at the stock's current trading price. We then applied this discount rate to our 2017-2022 unlevered free cash flow estimates for AMZN. We maintain our Outperform rating for AMZN shares, and factors that can provide potential upside to our estimates include: 1) re-establishment of e-commerce segment operating margin expansion as Amazon grows into its larger infrastructure, 2) ongoing margin benefit due to shipping loss moderation, and 3) upward bias to AWS revenue forecasts and likely more moderate deceleration path as suggested by ongoing capital intensity in the business.

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This research report is authored by:

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