November 21st, 2019

Ashley Clements, Latin American Economist
Maddy Goodman, Chief Operating Officer
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Amazon
Investment Thesis

Power Brand

Customer Integration

Long-Term Mindset
Amazon
Company Overview

Amazon Reporting Segments (10-k)

- Online Stores
- Physical Stores
- 3rd Party Seller Services
- Retail Subscription Services (Prime)
- Amazon Web Services (AWS)
- Other

Market Comparable Groups

- First Party Retail
- Third Party Retail
- Subscription Services
- Cloud
- Advertising
Amazon
Revenue Breakdown

More Than Just an Online Retailer
Amazon’s net revenue in Q2 2018 and Q2 2019, by segment

- **Online Stores**
  - $27.2b in Q2 2018
  - $31.1b in Q2 2019 (+14%)

- **Third-party seller services**
  - $9.7b in Q2 2018
  - $12.0b in Q2 2019 (+23%)

- **Amazon Web Services**
  - $6.1b in Q2 2018
  - $8.4b in Q2 2019 (+37%)

- **Physical stores**
  - $4.3b in Q2 2018
  - $4.3b in Q2 2019

- **Subscription services**
  - $3.4b in Q2 2018
  - $4.7b in Q2 2019 (+37%)

- **Other**
  - $2.2b in Q2 2018
  - $3.0b in Q2 2019 (+37%)
Amazon
Revenue Breakdown

Geographic Breakdown

United States 69%
Germany 8%
Japan 6%
United Kingdom 6%
Rest of World 11%
**Jeff Bezos**  
Chief Executive Officer  
- Princeton Graduate  
- Prior to AMZN worked in PE  
- Founded AMZN in 1994  
- Owns Washington Post  
- Founder of Space Flight company Blue Origin

**Brian Olsavsky**  
Senior VP and CFO  
- Joined AMZN in 2002  
- Prior position was CFO of Global Consumer Business for 5 years  
- Prior leadership positions in AMZN Finance  
- MBA Carnegie Mellon University

**Jeffrey Blackburn**  
Senior VP of Business Development  
- Joined AMZN in 1998  
- Has been in his position since 2006  
- Various roles within AMZN  
- Dartmouth & Stanford graduate
Amazon Acquisition History

2009: Zappos.com - $1.2B
2012: KIVA Systems - $775M
2015: Whole Foods Market - $370M
2017: PillPack - $13.6B
2018: Health Navigator - Undisclosed
2019: Ring - $1B

Amazon
Amazon has a large testing ground and aggregated consumer demand

1.2M employees between Amazon-JPM-Berkshire

5M estimated sellers on Amazon

310M Active Customers
(100M Prime Members)

Strategic Acquisitions

JPMorgan and Berkshire Hathaway Joint Venture

The Healthcare Cloud

Healthcare Logistics Specialist
Amazon

Company Strategy - AWS

Government Contracts

Private Business Contracts

High Margin Segment

Customer Stickiness

Amazon Continues Its Reign Atop the Cloud Market

Worldwide market share of leading cloud infrastructure service providers in Q2 2019

Amazon - 33%
Microsoft - 16%
Google - 8%
IBM - 6%
Alibaba.com - 5%
Salesforce - 3%
Oracle - 2%
Tencent - 2%

Worldwide cloud infrastructure service revenue in Q2 2019: $23 billion
Amazon
Company Strategy - Prime
Amazon
Company Strategy - Prime

Growing Customer Base
High Retention Rate
Customer Stickiness
International Growth

U.S. Amazon Prime Members Growth

Number of members in millions:

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
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<tr>
<td>Dec '13</td>
<td>25</td>
</tr>
<tr>
<td>Jul '14</td>
<td>28</td>
</tr>
<tr>
<td>Dec '14</td>
<td>40</td>
</tr>
<tr>
<td>Jul '15</td>
<td>44</td>
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<td>Dec '15</td>
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<td>Mar '16</td>
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<td>Sep '16</td>
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<td>Dec '16</td>
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<td>Mar '17</td>
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<td>Dec '17</td>
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<td>Mar '18</td>
<td>101</td>
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<tr>
<td>Jun '18</td>
<td>103</td>
</tr>
<tr>
<td>Sep '18</td>
<td>105</td>
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</tbody>
</table>
Amazon
Company Strategy – Prime Content

- Live Stream Sports
- Connect Content with Commerce
- Leverage with Consumer Data
Amazon
Company Strategy - Supply Chain & Logistics

- Game-Changing Delivery
- Warehouse Automation
- Increasing Logistics Fleet
Where will Amazon be in 5 years?

- Disrupting the US healthcare industry
- Dominating the cloud computing space
- Utilizing autonomous vehicles and drones for delivery
Amazon

Competitive Landscape

- **HQ:** Buenos Aires, Argentina
  - Market Cap: $27B
  - Weaknesses: Reference Ashley’s Macro Roundtables
  - Geographic Net Sales:
    - 60.2% Brazil
    - 26.2% Argentina
    - 7.6% Mexico
    - 6.1% Other

- **HQ:** Hangzhou, China
  - Market Cap: $56B
  - Weaknesses: Major focus on China
  - Geographic Net Sales:
    - 72.3% China
    - 27.7% International

- **HQ:** Bentonville, Arkansas
  - Market Cap: $338B
  - Weaknesses: Heavy R&D & little segment diversity
  - Geographic Net Sales:
    - 65% US
    - 6.2% Latam
    - 6% UK
    - 3.6% Canada
    - 2.1% China
    - 17% Other

- **HQ:** San Jose, CA
  - Market Cap: $28 B
  - Weaknesses: Their strategy is not to lose & low liquidity
  - Geographic Net Sales:
    - 40.7% US
    - 14.8% Germany
    - 13.8% UK
    - 11.1% South Korea
    - 19.6% Elsewhere
Amazon

SWOT

**Strengths**
- Wide Customer base
- Strong Distribution Channel Network
- Strong Financial performance

**Weaknesses**
- Overdependence on US
- Patent infringement issues

**Opportunities**
- Strategic acquisitions
- Increase in dependent for cloud computing services

**Threats**
- Cost of shipping
- Political threats
Amazon
Q3 Earnings Breakdown

- EPS: $4.23 vs. $4.62 Expected
- Revenue: $70B vs. $68.8B
- Amazon Web Services: $9B vs. $9.1B
Amazon
Price History – 1Y


Amazon
Price History – 1Y

FAANG sell off & SEC Drama
Tepid Q1 revenue forecast
Beat Q1 estimates & dominated with 1-day shopping
Q2 mixed results
FAANGs hit w regulatory woes
Q3 results show profit drop
Prime day excitement
AI privacy concerns
MA(50) crossed below MA(100) in Oct
RSI = 40.33
MACD crossed below signal line 11/13
Amazon
Financial Highlights

Impressive FCF

Healthy P/S
**Amazon Valuation Overview**

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<tbody>
<tr>
<td>Sales (% growth)</td>
<td>NA</td>
<td>27.1%</td>
<td>30.8%</td>
<td>30.9%</td>
<td>22.0%</td>
<td>20.8%</td>
<td>19.5%</td>
<td>18.2%</td>
<td>17.0%</td>
</tr>
<tr>
<td>COGS (% sales)</td>
<td>67.0%</td>
<td>64.9%</td>
<td>62.9%</td>
<td>59.7%</td>
<td>63.0%</td>
<td>62.5%</td>
<td>62.0%</td>
<td>61.5%</td>
<td>61.0%</td>
</tr>
<tr>
<td>SG&amp;A (% sales)</td>
<td>18.2%</td>
<td>19.1%</td>
<td>20.9%</td>
<td>21.3%</td>
<td>23.2%</td>
<td>23.1%</td>
<td>23.0%</td>
<td>22.8%</td>
<td>23.0%</td>
</tr>
<tr>
<td>Depreciation &amp; Amortization (% sales)</td>
<td>4.6%</td>
<td>4.7%</td>
<td>5.0%</td>
<td>5.2%</td>
<td>7.6%</td>
<td>7.4%</td>
<td>7.2%</td>
<td>8.8%</td>
<td>6.8%</td>
</tr>
<tr>
<td>Capital Expenditures (% sales)</td>
<td>4.3%</td>
<td>5.0%</td>
<td>5.7%</td>
<td>4.9%</td>
<td>5.1%</td>
<td>5.2%</td>
<td>4.9%</td>
<td>5.3%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Tax Rate</td>
<td>37.9%</td>
<td>31.1%</td>
<td>24.1%</td>
<td>17.3%</td>
<td>14.5%</td>
<td>15.9%</td>
<td>15.6%</td>
<td>15.0%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Working Capital (% sales)</td>
<td>(16.1%)</td>
<td>(17.7%)</td>
<td>(16.1%)</td>
<td>(14.8%)</td>
<td>(15.0%)</td>
<td>(13.5%)</td>
<td>(12.3%)</td>
<td>(11.9%)</td>
<td>(10.9%)</td>
</tr>
</tbody>
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**Conservative Estimates**
- Sales – Conservative
- COGS – Expansion of 1 day free shipping; Tariff threat
- SG&A - Consensus
- Capital Expenditure – Consensus
- Tax Rate - against guidance

**Enterprise Value**
- Cumulative Present Value of PFC: $165,297.3

**Terminal Value**
- Terminal Year EBITDA (2023E) [end 2019]: $90,753.5
- Exit Multiple: 16.3x
- Terminal Value: $1,483,281.3
- Discount Factor: 0.64
- Present Value of Terminal Value: $955,151.0
- % of Enterprise Value: 85.2%
- Enterprise Value: $1,120,448.2

**Implied Equity Value and Share Price**
- Enterprise Value: $1,120,448.2
  - Less: Total Debt: (49,290.0)
  - Less: Preferred Securities: 41,250.0
  - Less: Noncontrolling Interest: 502.1
  - Plus: Cash and Cash Equivalents: 41,250.0
- Implied Equity Value: $1,112,408.2
- Diluted Shares Outstanding: 502.1
- Implied Share Price: $2,215.58

Source: Proprietary Model
Amazon
Analyst Recommendations

Amazon.com Inc
Consensus Rating
Buys 96.4%
Holds 3.6%
Sells 0.0%

12M Tgt Px 46/59
Last Price 2194.83
Pricing Currency USD
Return Potential 26.2%
LTM Return 9.2%

As of 11/17/19
Amazon
Monte Carlo & Portfolio VaR

Monte Carlo Simulation

Median Price
$1,983.4

Mean Price
$2,064.73

Portfolio VaR

Excluding AMZN: 1.72%

Including AMZN: 1.86%

Source: Quant Team
Amazon

Recommendation

Recommendation: 8 Shares for 7.27%
Amazon Growth at a Reasonable Price

1998: "I sell books."
2017: "I sell whatever the fuck I want."
Amazon

Company Strategy

Whole Foods Acquisition

Amazon Fresh

Amazon Go

Amazon First Grocery Store
Amazon
Debt Distribution
Amazon

Company Strategy - Streaming Wars

STREAMING SERVICE COMPARISON

**MONTHLY PRICE**

<table>
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<tr>
<th>Service</th>
<th>Netflix</th>
<th>Hulu</th>
<th>Amazon Prime</th>
<th>Disney+</th>
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<tr>
<td>PREMIUM</td>
<td>$15.99</td>
<td>AD-FREE</td>
<td>Prime (110/yr)</td>
<td>$5.93</td>
</tr>
</tbody>
</table>

**SUBSCRIBERS**

- Netflix: 139 million
- Hulu: 25 million
- Amazon Prime: 100 million
- Disney+: 90 million

**MAJOR OFFERINGS**

- Hulu: The Path, 11.22.63, Castle Rock, third-party shows, and movies.
- Amazon Prime: The Marvelous Mrs. Maisel, Sneaky Pete, Bosch, Goliath, The Man in the High Castle, third-party shows, and movies.
- Disney+: Welcome Disney+, all Disney vault movies, Star Wars, Marvel, The Simpsons.
Sharing the Wealth

Here is how profits are shared from a brand-name drug with a list price of $300\(^\circ\). Of the middlemen involved in the process, a pharmacy benefit manager gets the biggest gross profit of $18.

- **Start Payment**
  - Plan sponsor (Health insurer or employer)
    - -$185

- **Gross profit**
  - Pharmacy
    - Patient Out-of-pocket
      - -$35
    - Pharmacy benefit manager
      - -$18
    - Wholesaler
      - -$3
    - Drugmaker
      - $137

\(\circ\)No one pays the full list price because of rebates and incentives that are negotiated by the pharmacy benefit manager and paid out by the drugmaker.

\(\circ\)The amount of the payments don't add up to the gross profits in part because of various markups and discounts taken during the filling of a prescription.

Sources: Pembroke Consulting; WSJ staff reports

THE WALL STREET JOURNAL.