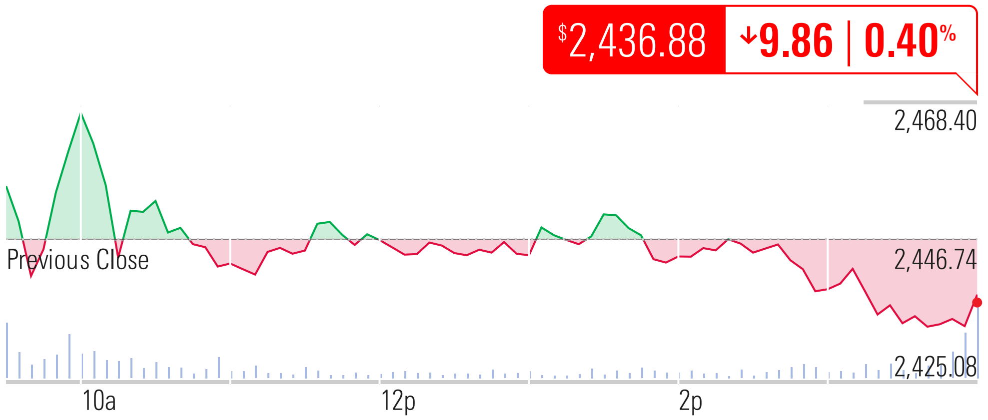
Amazon.com Inc AMZN ★★★ May 22, 2020

Show Full Chart >

Market Closed



USD | NASDAQ | Last close prices updated as of May 22, 2020, 4:15 PM EST | BATS BZX Real-Time Price

Quote | Key Ratios | Short Interest | News

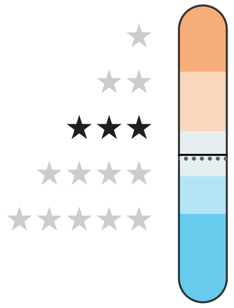
Bid/Size	Ask/Size	Day Range	Volume / Avg
2,435.00×2	2,436.88×1	2,430.13 – 2,469.85	2.9 Mil / 6.1 Mil
Year Range	**Forward Div Yield**	**Market Cap**	**Investment Style**
1,626.03 – 2,525.45	—	1.2155 Tril	Large Growth
Price/Sales	**Beta (5-Year)**	**Consensus Forward P/E**	**Price/Book**
4.15	1.34	98.04	18.62

Morningstar's Analysis

Summary | Competitors | Bulls Say/Bears Say

Valuation May 07, 2020 Currency in USD

AMZN is trading within a range we consider fairly valued.



Fair Value
2,500.00
Uncertainty: High

Last Close
2,436.88

1-Star Price	**5-Star Price**
> 3,875.00	< 1,500.00

Economic Moat	**Stewardship**
Wide Trend: Stable	Exemplary

COVID-19-Related Investments Position Amazon for Future Marketplace and Cloud Market Share Gains

R.J. Hottovy
Sector Strategist

Business Strategy and Outlook | by R.J. Hottovy Updated May 07, 2020

Amazon's disruption of the retail industry is well documented, but the company continues to find ways to evolve its business model. Its operational efficiency, network effect, and a brand intangible asset give its marketplaces sustainable competitive advantages that few, if any, traditional retailers can match. The combination of competitive pricing, unparalleled logistics capabilities and speed, and high-level customer service makes Amazon an increasingly vital distribution channel for consumer brands (especially in light of COVID-19 operating restrictions hindering physical retailers). Even with more retailers looking to expand online, we believe Amazon will maintain its consumer proposition through expedited Prime shipping, an expanding digital content library, and new member benefits. Aided by more than 480 million estimated global active users, 155 million global Prime members, and fulfillment infrastructure, technology, and content investments, Amazon owns one of the wider economic moats in the consumer sector and is likely to reshape retail, digital media, enterprise software, and other categories for years to come.

Key top-line metrics--including gross merchandise volume growth (a 18% compound annual growth rate the past five years), total physical and digital units sold (22% CAGR), and third-party units sold (28% CAGR)--continue to outpace global e-commerce trends, suggesting that Amazon is gaining share while fortifying its network effect. On top of its impressive growth, Amazon is building a more visible margin expansion story despite investment requirements for Prime one-day shipping (including fulfillment infrastructure/capacity), content deals, AmazonFresh, hardware such as the Echo/Alexa-enabled products, AWS, and physical store expansion. While some capital decisions haven't always yielded strong returns, we're optimistic that Amazon can approach 8% operating margins by 2024 based on Prime adoption and new pricing tiers, new subscription services across multiple categories, AWS segment margins around 30%, fulfillment center scale, new third-party seller services, expanded advertising offerings, and Alexa technology licensing arrangements.

Economic Moat | by R.J. Hottovy Updated May 07, 2020

The traditional brick-and-mortar retail industry has undergone a period of rapid transformation the past several years, a trend that will likely continue as the industry recovers from COVID-19. With nonexistent customer switching costs and intense competition, we've already seen Circuit City, Linens 'n Things, Borders, and RadioShack exit the retail landscape, while a host of other retailers struggle to reverse deteriorating fundamentals. Market consolidation among mass merchants like Walmart and Costco has played a role in this trend, as have direct-to-consumer investments by key manufacturers. However, we view Amazon as the most disruptive force in retail. Its operational efficiency, network effect, and laser focus on customer service provide its marketplaces with sustainable competitive advantages that traditional retailers cannot match; this should yield additional market share gains in the years to come. Despite fulfillment, technology (hardware devices, Alexa, and AWS), and content investments as well as additional expenses for COVID-19, we expect Amazon can generate economic returns ahead of our cost of capital assumption over an extended horizon, supporting our wide moat rating.

One of Amazon's key advantages is the operational efficiency of its fulfillment and distribution network, which satisfies consumer demand for free and expedited shipping (including expanded one-day delivery options for Prime members starting in 2019). This allows Amazon to generate strong cash flow, which in turn can be reinvested in advertising, customer service, and website enhancements that keep its marketplace robust and customer loyalty strong. In fact, we believe Amazon's brand has come to represent low prices, a wide selection, convenience, and superior customer service--a rare combination among retailers.

Amazon also benefits from a network effect, as low prices, an expansive breadth of products, and a user-friendly interface attract millions of customers, which in return attract merchants of all kinds to Amazon.com, including third-party sellers on Amazon's Marketplace platform (which represented 53% of total units sold in 2019) and wholesalers/manufacturers selling directly to Amazon. According to our research, the percentage of traffic to Amazon derived from search has fallen in recent years at a time when other online retailers have become more dependent on search. We think this indicates that Amazon is increasingly becoming the starting point for online purchases, akin to a mall anchor tenant. Additionally, customer reviews, product recommendations, and wish lists increase in relevance as more consumers and products are added to the Amazon platform, enhancing its network effect.

Amazon's $13.7 billion acquisition of Whole Foods in 2017 marked its most significant push into the grocery category but likely left some investors scratching their heads after more than two decades of building an e-commerce empire without physical stores. While we had expected the company to further test its other grocery concepts before going all in with physical stores, we do see several reasons this acquisition is more than just a push into the grocery category and can enhance Amazon's wide moat. First, there is already a high degree of overlap between Amazon Prime members and Whole Foods shoppers. Second, Amazon adds instant credibility in fresh produce and proteins through Whole Foods' supplier base, something that had been slow to materialize with Amazon's grocery efforts to this point. On top of the company becoming a reputable player in fresh food, we expect that many Whole Foods suppliers will explore Amazon as a potential distribution channel, at least those not already using Amazon's marketplaces. Third, Amazon has a new vehicle to meaningful expand and accelerate its private-label offerings, including its own packaged food and household product private labels such as Happy Belly, Bloom Street, Mama Bear, and Wickedly Prime as well as the opportunity to sell Whole Foods' 365 label to existing Prime customers. Finally, Whole Foods' physical locations offer an opportunity to showcase new Amazon products and technologies.

We like Amazon's ability to compete in digital media, given its sizable customer base, the symbiotic hardware/software ecosystem of its Kindle, Fire TV, Dash, and Echo products, and intriguing advertising and licensing possibilities with Amazon's Echo and other Alexa-enabled voice-recognition products. We still view the Kindle suite of products as customer-acquisition tools that add multiple layers of upside to our base-case assumptions, including additional Prime memberships and engagement levels, accelerating digital media sales, and a positive halo effect on general merchandise sales. We believe Amazon will continue to develop into a formidable player in digital media, given its vast content offerings, inroads into new verticals (including video games), and ability to sell hardware as a loss leader.

We believe Amazon Web Services has similarly developed cost advantage, intangible asset, and network effect moat sources. Amazon's public cloud computing offerings possess more than 3 times the computing capacity in use than the next 10 largest providers combined (based on our estimates), providing the company with scale advantages and often making it the preferred name for corporations looking to reduce information technology expenditures. We expect AWS to generate $47 billion in revenue during 2020, and we forecast average annual revenue growth of 25% over the next five years. With recent investments in additional capacity and other innovations, we expect AWS to become an increasingly positive gross margin contributor--the segment posted a 26.3% segment operating margin in 2019, and we believe it can deliver roughly 30% operating margins over a longer horizon--because of its highly scalable nature and other mission-critical services outside of cloud storage, as well as a network of third-party software providers selling on AWS Marketplace.

As one of the global leaders in online commerce, Amazon finds itself in a unique position amid the global COVID-19 outbreak. As containment efforts persist and consumers isolate themselves, we believe certain Amazon services will continue to see increased adoption. The most obvious example is online grocery, which has accelerated significantly based on our discussions with logistics industry executives. With a spike in telecommuting, AWS also stands to benefit from increased enterprise cloud computing, storage, networking/content delivery, mobile app, and digital security usage. On top of increased enterprise-level cloud demand, we anticipate Amazon will benefit from increased demand for entertainment content, either directly (its own content portfolio) or indirectly (AWS functionality for Netflix and other content providers).

However, Amazon could also face obstacles. At the top of the list is COVID-19-related expenses, as management has announced plans to invest more than $4 billion in the second quarter of 2020 (including facility productivity measures, protective equipment, cleaning, wage increases, and COVID-19 testing capabilities). While this changes our near-term margin outlook, we see it as necessary to satisfy/retain Prime members in an evolving consumer environment (especially those tempted to shop elsewhere because of fulfillment bottlenecks) and improve the third-party seller experience. These are critical to the network effect underpinning our wide moat rating and justify the investment spend. Amazon has done a better job diversifying its product mix toward more consumer staples in recent years, but a material consumer slowdown/recession would still impact top-line growth.

Fair Value and Profit Drivers | by R.J. Hottovy Updated May 07, 2020

We're raising our fair value estimate to $2,500 per share from $2,400 following Amazon's first-quarter 2020 update, as we believe COVID-19-related changes in consumer behavior will help to accelerate Amazon's online commerce and cloud service revenue, partly tempered by near-term COVID-19-related expenses. In Amazon's case, we do not believe traditional price/earnings and enterprise value/EBITDA metrics are meaningful, given the impact that near-term investments are expected to have on near-term margins. Still, we believe Amazon warrants a premium valuation based on its wide economic moat, meaningful avenues for growth, and longer-term margin expansion potential.

We expect COVID-19-related demand to drive online commerce and cloud service market share gains in 2020, putting full-year revenue growth around 26% (up from initial expectations in the low-20s). We've also raised our five-year average annual revenue growth outlook to 17% from 15% due to greater engagement among Amazon Prime members, increased sales from its third-party sellers, digital content sales, international expansion, and emergent business segments like advertising and technology licensing. With respect to Amazon's sales mix, we forecast online retail revenue to grow 15% annually over the next five years--below our forecast of low-double-digit global industry growth over the same period, but partly a byproduct of Amazon's shift to a third-party marketplace--with smaller segments like physical stores, third-party seller services, subscription services, AWS, and advertising growing 5%, 16%, 20%, 26%, and 30%, respectively, over the same period.

We forecast that gross margins will improve to 42.1% over the next five years, compared with 41.0% in 2019. Amazon's growing clout with suppliers and advertisers, a higher proportion of third-party units in the sales mix, AWS' increased presence, and new advertising service offerings should allow for higher gross margins. We also forecast operating margin expansion through increasing expense leverage (particularly in the marketing and general & administrative expense line items), contribution from AWS, and accelerating third-party unit sales. Our model calls for Amazon to approach 8% GAAP operating margins over the next five years, based on its strong competitive positions in AWS and North American e-commerce, as well as early indications of success in certain international markets.

Risk and Uncertainty | by R.J. Hottovy Updated May 07, 2020

Despite its leading position in North American and European e-commerce, Amazon faces several potential risks. Impairment to Amazon's low-price positioning, whether real or perceived, could have an adverse impact on fundamentals. Amazon must maintain its value proposition and logistics efficiency to drive site traffic while competing with other merchants for market share. This includes managing Amazon Prime fees, but we believe the combination of fulfillment capabilities, expanded digital content offerings, and new subscription and streaming offerings will keep Prime membership churn to a minimum. Other execution risks include expansion into peripheral business lines and physical stores (including Whole Foods), which could distract management or lead to poor capital-allocation decisions. International growth brings unique regulatory challenges, as foreign governing bodies are constantly amending online commerce laws, often to the benefit of local competitors. We also expect coronavirus-related changes in consumer behavior will have a lasting impact on the industry and drive near-term operating volatility.

On top of execution risk, we see three other sources of potential risk: (1) regulatory, including the threat of increased shipping fees from the U.S. Postal Service or other regulated carriers, higher taxes, restrictions regarding simultaneously operating a first- and third-party marketplace, and antitrust investigations by the Justice Department; (2) direct and indirect competition from other retailers or technology firms; and (3) intangible asset impairment, including data breaches, concerns over inappropriate data usage, or consumer fatigue. On the other hand, we see sources of upside risks from more diversified/specialized AWS offerings, expanded Fulfilment by Amazon capabilities, the rollout of Amazon Fresh across additional urban centers, new potential pricing tiers or add-on features for Amazon Prime memberships, and expanding advertising to new channels.

Stewardship | by R.J. Hottovy Updated May 07, 2020

Chairman and CEO Jeff Bezos founded Amazon.com in 1994. We view Amazon's management team as Exemplary in terms of corporate stewardship. Bezos owns about 15% of the shares (and voting rights for 20%), takes no equity compensation or bonus pay, and collects a paltry salary. Although the board is small, it is elected every year, receives no cash compensation, avoids insider relationships, and hasn't implemented antitakeover provisions. The company also provides a fair amount of supplementary financial data in its financial reports. Our only complaint is that specific disclosures have not increased as the company has expanded into new areas, including digital downloads, device sales, and user/Prime membership data (though to its credit, management broke out AWS as a separate business unit in the first quarter of 2015 and disclosed that the company surpassed 150 million Prime memberships globally at the end of 2019).

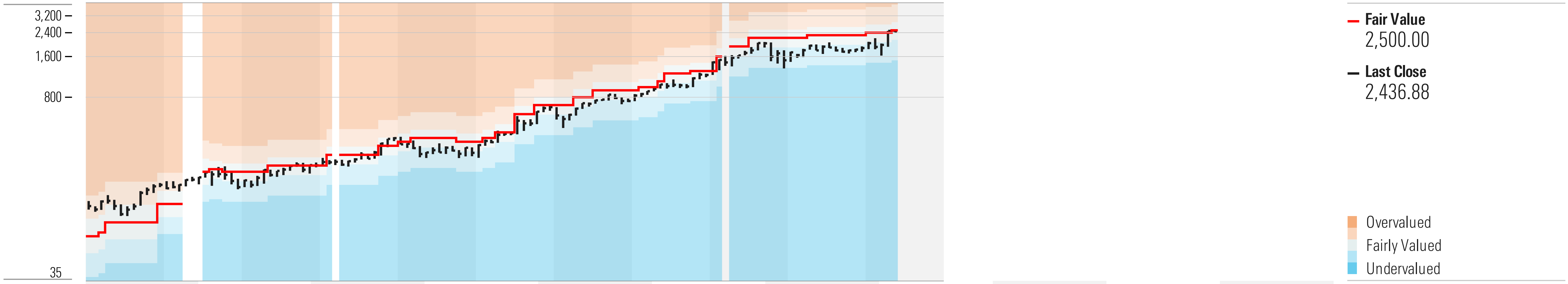
Amazon has made several investments in sustaining its moatworthy business models, including its global fulfillment infrastructure, a vast portfolio of audio and video content, and Amazon Web Services capacity. However, charges tied to the Fire Phone in 2014 and operating losses in certain international markets underscore the importance of Amazon being selective with its capital-allocation decisions. We believe the lack of consumer interest in the Fire Phone was a wakeup call for management's capital decisions, as the company runs the risk of losing key personnel without stronger returns on invested capital, owing to the equity component of many employees' compensation structure. However, we're comfortable with this risk, based on recent capital discipline and investments that have been more directly aligned with the core commerce marketplace and AWS platforms.

Close Full Analysis

View Report Archive

Price vs. Fair Value

Advanced | Basic   Logarithmic | Linear

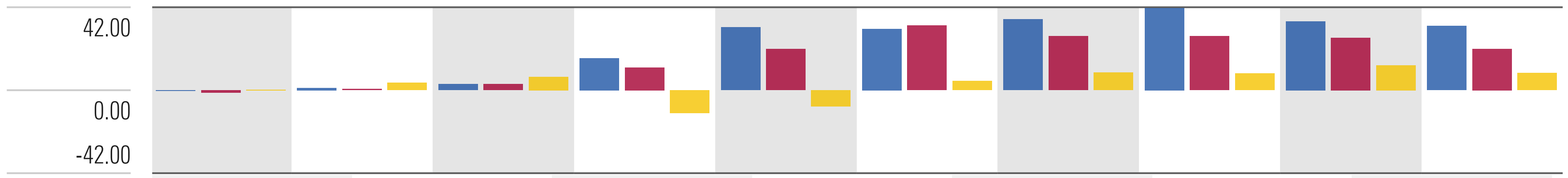


2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	YTD	
1.38	0.77	1.00	1.14	0.83	0.97	0.83	0.94	0.68	0.80	0.97	Price/Fair Value
33.81	-3.83	44.93	58.96	-22.18	117.78	10.95	55.96	28.43	23.03	31.88	Total Return %
17.01	-5.42	28.66	25.83	-35.03	117.09	-1.49	34.48	33.48	-8.20	39.99	+/- Index

USD | As of May 22, 2020 | Index: Morningstar US Market TR USD

Trailing Returns

Daily | Monthly | Quarterly



Total Return %	1-Day	1-Week	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year	15-Year
AMZN	-0.40	1.12	3.11	16.27	31.88	31.04	35.91	41.63	34.83	32.57
Internet Retail	-1.35	0.61	3.08	11.49	20.82	32.75	27.33	27.41	26.53	21.00
Morningstar US Market TR USD	0.31	3.71	6.79	-11.51	-8.12	4.64	8.96	8.53	12.68	8.67
+/-Internet Retail	0.94	0.51	0.03	4.77	11.06	-1.71	8.58	14.22	8.30	11.57
+/-Morningstar US Market TR USD	-0.71	-2.58	-3.69	27.78	39.99	26.40	26.95	33.10	22.15	23.90

As of May 22, 2020 | Sector: Internet Retail | Index: Morningstar US Market TR USD

Financials

Valuation

Price/Book	Price/Cash Flow	Price/Sales	Price/Earnings
18.62	30.96	4.15	116.28

As of May 22, 2020

Growth (3-Year Annualized)

Revenue %	Operating Income %	Net Income %	Diluted EPS %
27.30	51.45	69.70	67.46

As of Dec 31, 2019

Financial Health

Quick Ratio	Current Ratio	Interest Coverage	Debt/Equity
0.84	1.08	8.92	0.98

As of Mar 31, 2020

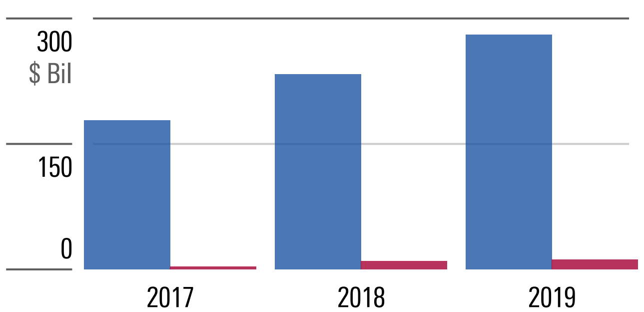
Profitability

Return on Assets %	Return on Equity %	Return on Invested Capital %	Net Margin %
5.29	18.58	9.58	3.56

As of Mar 31, 2020

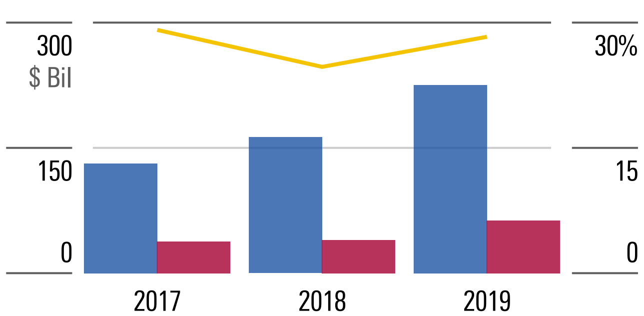
Annual | Quarterly | As Originally Reported | Restated

Income Statement >



	2017	2018	2019	TTM	3-Yr Trend
Revenue (Bil)	177.87	232.89	280.52	296.27	
Operating Income (Bil)	4.11	12.42	14.54	14.11	
Net Income (Bil)	3.03	10.07	11.59	10.56	
Diluted EPS	6.15	20.14	23.01	20.93	
Normalized Diluted EPS	6.15	20.14	23.01	20.93	

Balance Sheet >

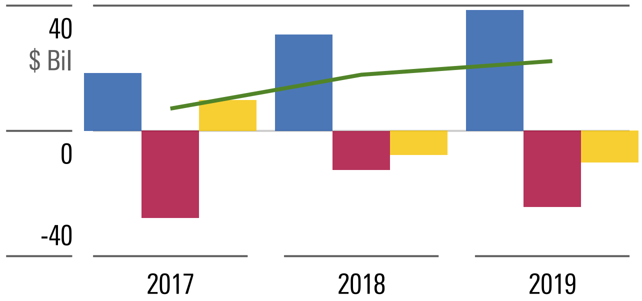


	2017	2018	2019	Q1 2020	3-Yr Trend
Total Assets (Bil)	131.31	162.65	225.25	221.24	
Total Liabilities (Bil)	103.60	119.10	163.19	155.97	
Total Debt (Bil)	37.93	39.79	63.21	63.74	
Total Equity (Bil)	27.71	43.55	62.06	65.27	
Cash, Cash Equivalents and Short Term Investments (Bil)	30.99	41.25	55.02	49.29	

Cash Flow >

Operating | Investing | Financing | Free Cash Flow

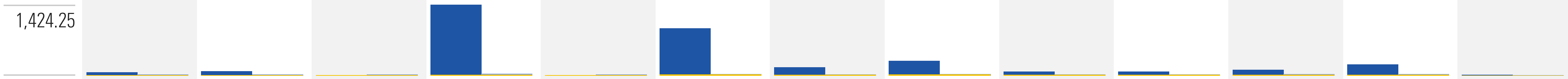
2017	2018	2019	TTM	3-Yr Trend



Operating (Bil)	18.43	30.72	38.51	39.73
Investing (Bil)	-27.82	-12.37	-24.28	-25.05
Financing (Bil)	9.86	-7.69	-10.07	-10.28
Free Cash Flow (Bil)	6.48	17.30	21.65	19.37

Fiscal year ends in Dec 31 | USD in Bil except per share data

Valuation

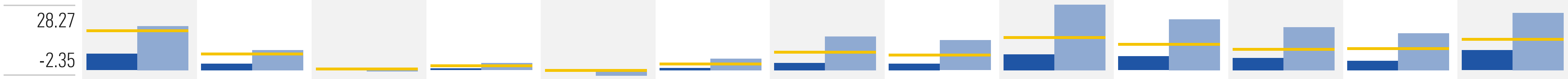


Calendar	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Current	5-Yr	Index
Price/Sales	2.40	1.83	1.86	2.63	1.68	3.18	2.83	3.56	3.39	3.50	4.15	3.39	1.99
Price/Earnings	71.15	91.11	—	1,424.25	—	951.96	171.60	297.58	84.10	81.87	116.43	224.67	19.38
Price/Cash Flow	23.49	25.49	27.19	37.01	25.17	32.56	24.76	35.32	28.10	26.27	30.97	30.05	12.80
Price/Book	11.83	10.14	13.90	20.14	13.96	25.61	20.12	22.96	18.85	16.28	18.62	21.05	2.86

USD | As of May 25, 2020 | Index: Morningstar US Market TR USD

More Valuation Data

Operating Performance



Fiscal	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	TTM	5-Yr	Index
Return on Assets %	7.07	2.86	-0.13	0.75	-0.51	0.99	3.19	2.83	6.85	5.97	5.29	4.03	8.59
Return on Equity %	19.01	8.63	-0.49	3.06	-2.35	4.94	14.52	12.91	28.27	21.95	18.58	15.88	24.71
Return on Invested Capital %	17.58	7.60	-0.05	2.55	-0.68	3.31	8.42	7.09	14.70	11.72	9.58	9.85	13.84

USD | Index: Morningstar US Market TR USD

More Operating Performance Data

Dividends & Splits

Dividends | Splits

Calendar	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Current	TTM	5-Yr Avg
Buyback Yield %	—	—	0.84	0.00	—	—	—	—	—	—	—	—	—
Total Yield %	—	—	0.84	0.00	—	—	—	—	—	—	—	—	—

Ownership

Major | Concentrated | Buying | Selling | Funds | Institutions

Name	Morningstar Rating	% Total Shares Held	% Total Assets	Total Ownership Trend Prev. 8 Qtrs	Current Shares	Change Amount	Change %	Date
Vanguard Total Stock Mkt Idx Inv	★★★★	2.47	3.69		12,215,553	↓140,776	↓1.14%	Apr 30, 2020
Vanguard 500 Index Investor	★★★★	1.72	4.27		8,522,171	↓48,620	↓0.57%	Apr 30, 2020
SPDR® S&P 500 ETF Trust	★★★★★	0.91	4.27		4,481,835	↓43,500	↓0.96%	Apr 30, 2020
Invesco QQQ Trust	★★★★★	0.86	10.63		4,271,127	↑31,896	↑0.75%	Apr 30, 2020
American Funds Growth Fund of Amer A	★★★	0.86	5.01		4,244,406	↑50,208	↑1.20%	Mar 31, 2020
Total (for Top 5)		6.82			33,735,092	↓150,792		

More Ownership Data

Executive Team

Key Executives | Board of Directors | Committees | Transaction History

Name	Title	Age	Compensation USD 2015	2016	2017	2018	2019	5-Year Trend
▶ Jeffrey P. Bezos	President, Chief Executive Officer and Chairman of the Board	56	1,681,840	1,681,840	1,681,840	1,681,840	1,681,840	
▶ Andrew Jassy	Chief Executive Officer, Amazon Web Services	52	174,675	35,609,644	194,447	19,732,666	348,809	
▶ Jeffrey A. Wilke	Chief Executive Officer, Worldwide Consumer	53	175,959	32,958,114	184,781	19,722,047	210,725	
▶ Brian T. Olsavsky	Senior Vice President and Chief Financial Officer	56	7,786,573	4,558,647	163,200	6,933,349	163,200	
▶ Jeffrey Blackburn	Senior Vice President, Business Development	50	—	22,194,343	178,500	10,399,662	57,796,739	
▶ Compensation for all Key Executives			9,819,047	97,002,588	2,402,768	58,469,564	60,201,313	

More Executive Team Data

Company Profile

Business Description

Amazon is among the world's highest-grossing online retailers, with $281 billion in net sales and roughly $365 billion in estimated physical/digital gross merchandise volume in 2019. Online product and digital media sales accounted for 50% of net revenue in 2019, followed by commissions, related fulfillment and shipping fees, and other third-party seller services (19%), Amazon Web Services' cloud computing, storage, database, and other offerings (13%), Prime membership fees and other subscription-based services (7%), product sales at Whole Foods and other physical store retail formats (6%), and advertising services and cobranded credit cards (5%). International segments constituted 27% of Amazon's non-AWS sales in 2019, led by Germany, the United Kingdom, and Japan.

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Sector

Consumer Cyclical

Industry

Internet Retail

Most Recent Earnings

Mar 31, 2020

Fiscal Year End

Dec 31, 2020

Stock Type

Cyclical

Employees

798,000
As of Dec 31, 2019