

EQUITY RESEARCH / AMZN

Amazon.com Inc

LONG CANDIDATE · historical study through 2026-10-01 · horizon 540 days · EARNINGS MULTIPLE

PRICE	BASE CASE	UPSIDE	PROB-WEIGHTED	MARKET CAP	TRAILING P/E
\$248.23	\$308.33	+24.2%	\$309.86	\$2,677.49B	20.0x



STREET CHECK

Street target **\$330** (+32.9% vs price) · 57 buy / 2 hold / 0 sell · forward P/E 23.6x · EPS estimates \$12.88 this year, \$10.50 next

Our base case is **0.93x** the Street target: within the Street's range.

Consensus is shown for calibration only. The model never receives it.

Thesis

Amazon's core operating engines - AWS, advertising, and retail - are delivering robust, accelerating earnings growth, but the market is discounting the stock at a trailing P/E of 19.97x due to a \$173.0 billion TTM capex cycle that has pushed FCF to negative \$9.0 billion and reliance on a one-off mark-to-market gain. Base case value is \$308.33 vs. price \$248.23, representing a 24.2% upside. The current valuation fails to capture the sustainable profitability of the cloud and digital ad franchises.

What the market may be missing

The market prices a trailing P/E of 19.97x on reported EPS, heavily discounting the stock due to negative FCFF from an aggressive AI infrastructure capex cycle and a one-time \$53.4 billion mark-to-market gain on Anthropic. Normalized EPS of \$8.55 justifies a higher multiple than currently implied, sitting at a normalized ~29x which is below the company's five-year historical low of 32.19x.

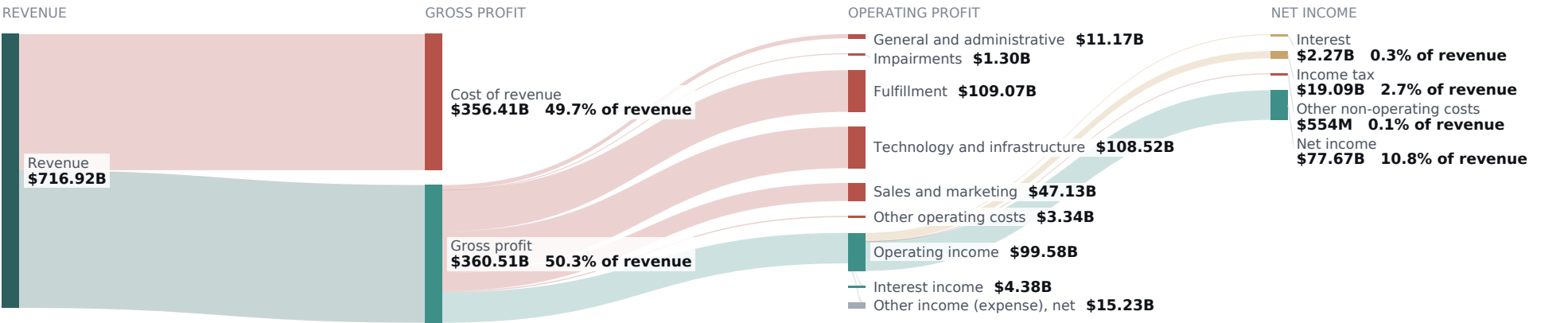
Why the opportunity exists

Complexity. The market is struggling to properly value the intersection of massive, temporary AI infrastructure investment and high-margin cloud and advertising growth. Negative FCFF and a one-off \$53.4 billion gain create accounting noise that obscures the underlying normalized earnings power. Evidence: Trailing P/E of 19.97x on reported EPS vs normalized ~29x; capex intensity of 22.3%; AWS 37% growth; negative FCFF margin of -1.16%.

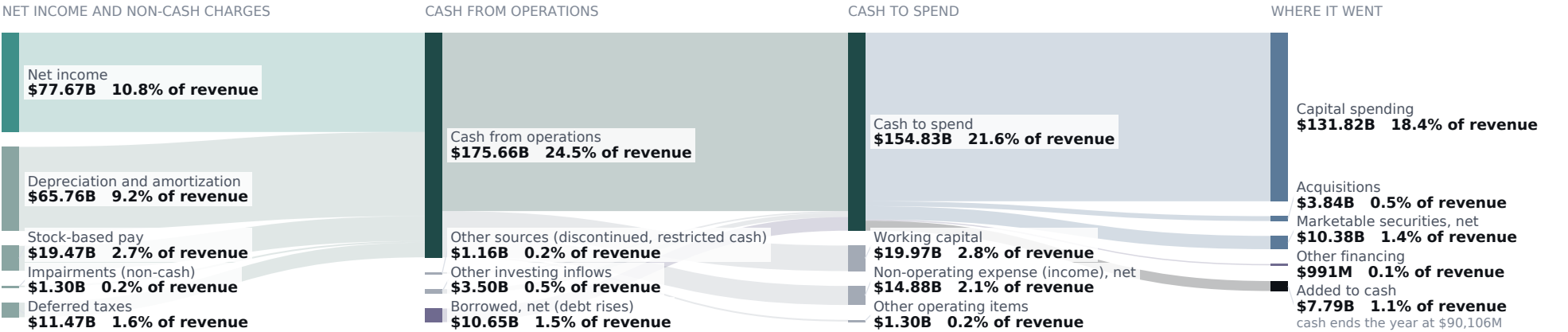
Follow the money: fiscal 2025

Of every \$100 of revenue, \$50 went to cost of revenue, \$39 to operating costs and \$3.0 to interest and tax, and \$11 became net income. Operations turned that into \$20 of cash; \$18 went to capital spending.

1 WHERE EVERY DOLLAR OF REVENUE WENT



2 HOW PROFIT BECAME CASH, AND WHERE THE CASH WENT SHOWN 3.3 TIMES LARGER THAN PANEL 1



From the 10-K for the fiscal year ended 2025-12-31, XBRL accession 0001018724-26-000004. Every band ties to a reported figure; where the tagged lines do not add up, the difference appears as an explicit other or working-capital band. Lines outside the standard set are placed by the filing's own calculation links, under the company's labels; borrowing and investment flows are netted by instrument.

The business

Amazon.com, Inc. is a global technology and e-commerce company organized into three segments (North America, International, AWS) that sells physical/digital products, subscriptions, electronic devices, media, and cloud infrastructure services to consumers, sellers, developers, enterprises, and advertisers.

What it sells

Physical and digital products sold directly and via third-party sellers; subscription services (Amazon Prime); electronic devices (Kindle, Fire, Echo, Ring, Blink, eero); media content; on-demand cloud computing, storage, database, analytics, AI/ML, and other technology services through AWS; and advertising services (sponsored ads, display, video). Retail merchandise and content (first-party and third-party sellers), AWS on-demand compute/storage/database/analytics/AI services, advertising services, Amazon Prime membership, digital media content, Fulfillment by Amazon, electronic devices, satellite broadband network, and autonomous vehicle ride-hailing services. Product sales, third-party seller fees (commissions, fulfillment, and shipping fees), AWS sales, advertising services, Amazon Prime membership fees, and digital media content subscriptions. Also includes logistics services, electronic devices (Fire tablets, Kindle), AI infrastructure hardware (Trainium, Graviton), and software/SaaS tools (Bedrock, Quick, Lambda).

Customers and channels

Primary customer sets: consumers, sellers, developers, enterprises, content creators, advertisers, and employees. Access channels include online and physical stores, websites, mobile apps, Alexa, devices, streaming, and direct fulfillment. Sellers and advertisers utilize Amazon's platform for listings, fulfillment, and ad placements. Consumers purchasing via online stores and fast shipping offers; third-party sellers using Amazon retail and FBA; developers and enterprises subscribing to AWS and AI/ML services; advertisers using sponsored search and third-party referrals; content creators and media consumers. Channels include online stores, mobile apps, social/online/TV advertising, direct sales, and international storefronts. Direct-to-consumer online and physical stores, third-party sellers utilizing Fulfillment by Amazon, enterprise and developer customers using AWS, advertisers on Amazon's retail and video platforms, corporate clients on Amazon Business, and subscribers to Prime Video and other digital content services.

Unit economics and costs

Revenue from seller programs includes fixed fees, a percentage of sales, per-unit activity fees, and interest. Costs are impacted by net shipping expenses, which increase due to complimentary upgrades, split-shipments, and long-zone shipments during peak demand. Inventory risks include markdowns and write-offs. High fixed infrastructure costs for fulfillment networks and AWS data centers. Variable costs include product purchase, inbound/outbound shipping, payment processing, fulfillment, AWS infrastructure, and marketing, which change directly with sales volume. Fixed costs cover technology infrastructure, data centers, online stores, and R&D, dependent on capacity needs and geographic expansion. Amazon seeks to reduce variable costs per unit via direct sourcing, supplier discounts, defect reduction, and network optimization, while leveraging fixed costs through scale and process efficiency. Cost of sales (47.7-48.0% of net sales) includes product purchase prices, inbound/outbound shipping, and digital media costs. Fulfillment costs (14.8-14.9%) cover fulfillment centers, physical stores, customer service, and payment processing. Technology and infrastructure costs (16.4-16.5%) include servers, data centers, depreciation, and AI R&D. Capital expenditures surged to \$96.3B in H1 2026 and \$169.0B trailing twelve months, primarily for AI infrastructure and fulfillment network capacity. Payment processing costs for third-party sellers are higher as a percentage of net sales than retail sales.

Segments

- **North America** - Sales growth primarily reflects increased unit sales, including sales by third-party sellers, advertising sales, and subscription services driven by continued focus on price, selection, and convenience.
- **International** - Sales growth primarily reflects increased unit sales, including sales by third-party sellers, advertising sales, and subscription services driven by continued focus on price, selection, and convenience.
- **Amazon Web Services ("AWS")**
- **AWS** - Sales growth primarily reflects increased customer usage, partially offset by pricing changes primarily driven by long-term customer contracts.

Revenue drivers

- Third-party seller fees (fixed, commission, per-unit, interest)
- Advertising services (sponsored, display, video)
- Subscription services (Amazon Prime)
- Direct and third-party product sales
- AWS compute, storage, database, analytics, AI/ML services
- Electronic device sales
- Increased unit sales across retail and third-party marketplace
- Growth in advertising sales (sponsored search, third-party referrals, social/online/TV)

Competitive position

Competes intensely across physical, e-commerce, omnichannel retail, cloud services, electronic devices, digital content, advertising, grocery, healthcare, and logistics. Principal competitive factors are selection, price, convenience, and fast/reliable fulfillment. Service competition relies on quality, speed, reliability, and customer switching willingness. Competitors may have greater resources, brand recognition, or supply control. Amazon competes on price, selection, convenience, fast shipping, and AWS performance/reliability. Strength derived from cross-functional infrastructure, fulfillment network scale, third-party seller ecosystem, and continuous reinvestment in AI, cloud, and logistics to maintain customer trust and market ubiquity. Market leader in global e-commerce and cloud computing, leveraging massive scale, fast Prime delivery networks, proprietary silicon (Graviton/Trainium), and integrated AI services. Faces intense cross-industry competition but maintains momentum through continuous investment in AI, fulfillment automation (Proteus, Zoox), and platform ecosystems (Bedrock, Alexa).

Industry direction

Rapidly evolving with intense cross-border competition and new well-funded entrants. Trends include adoption of new business models, expansion of AI/ML applications, growth in cloud computing and digital content, increasing globalization of retail and infrastructure, and ongoing sustainability initiatives. Growth in internet adoption, online commerce, cloud services, and AI/ML technologies. Macro pressures include inflation, interest rates, supply chain/resource volatility, tariff policies, regional labor constraints, and geopolitical conditions impacting customer spending and operational costs. Rapid cloud services and AI infrastructure demand growth, accelerated adoption of agentic AI and foundation models via managed platforms, expansion of same-day/overnight delivery logistics, and evolving regulatory/tariff landscapes impacting global trade, tax structures, and AI governance frameworks.

Recent developments

- Q2 2026 net sales reached \$200.6B (+20% YoY); operating income rose to \$27.5B (+43% YoY).
- AWS sales grew 37% to \$42.2B, marking fastest growth in 18 quarters with a \$169B annualized run rate.
- Net income reached \$62.6B (\$5.75 diluted EPS), largely driven by a \$53.4B pre-tax mark-to-market gain on Anthropic investments.
- Trailing twelve-month free cash flow turned negative at \$(7.6)B due to a \$66.1B year-over-year increase in capex primarily for AI infrastructure.
- Long-term debt increased to \$128.9B as of June 30, 2026; cash, equivalents, and marketable securities stood at \$123.0B.
- Launched Graviton5 (25% better compute than Graviton4), expanded AWS Bedrock with new foundation models, previewed AWS Continuum for code vulnerability remediation.
- Commercialized Zoox robotaxi service after NHTSA Part 555 Exemption approval.
- Expanded Amazon Now ultra-fast delivery to 80+ new US cities and added Amazon Supply Chain Services for third-party logistics.

Management outlook

Third quarter 2026 net sales guidance is \$197.0 billion to \$202.0 billion, representing 9% to 12% year-over-year growth, or nearly 400 basis points higher excluding Prime Day; operating income guidance is \$22.5 billion to \$26.5 billion; assumes approximately 80 basis points unfavorable foreign exchange impact, no energy derivative remeasurements, and no new acquisitions, restructurings, or legal settlements. Management expects to continue making substantial investments in artificial intelligence initiatives and fulfillment infrastructure through the remainder of 2026. Financial focus is on long-term, sustainable growth in free cash flow. Expect to continue increasing spending on technology and infrastructure, including AI/ML initiatives, which may negatively impact short-term free cash flow but support long-term growth. Anticipate continued impact from macroeconomic, geopolitical, and FX factors into Q1 2026. Prioritize price, selection, convenience, and operational efficiency while managing shareholder dilution through RSUs. Guided by customer obsession, passion for invention, operational excellence, and long-term thinking. Focus on serving primary customers across all segments, expanding internationally, investing in automation and AI technologies, maintaining workforce safety, and developing talent through competitive pay and skills training.

Accounting flags

- Inventory valuation allowance sensitivity: every 1% increase would record approximately \$405 million additional cost of sales
- Significant mark-to-market adjustments for private equity investments, primarily Anthropic and OpenAI, contributing \$53.4 billion to other income in Q2 2026
- Accounting for satellite network costs currently expensed but to be capitalized upon commercial viability
- Energy contract derivative remeasurements impacting technology and infrastructure costs, with fair value changes not affecting cash flows but potentially material to future periods
- Deferred tax asset valuation and jurisdictional mix changes affecting effective tax rates
- Inventory valuation requires estimates for disposition and recoverable values; 1% additional allowance would cost approximately \$405 million in COGS.

Key figures

KEY FIGURES	TTM TO 2026-06-30	FY2025	
Revenue	\$775.68B	\$716.92B	+12.4% y/y
Operating income	\$93.71B	\$79.97B	12.1% margin
Net income	\$135.28B	\$77.67B	
Diluted EPS	\$12.43	\$7.17	20.0x trailing P/E
Operating cash flow	\$161.40B	\$139.51B	+20.4% y/y
Capital spending	\$173.03B	\$131.82B	22.3% of revenue
Unlevered FCFF	\$-8.99B		-0.3% yield
Cash and short-term investments	\$122.99B		
Net debt	\$5.91B		0.0x EBITDA
Market capitalisation	\$2,677.49B		28.6x EV/EBIT

Figures from the filings' XBRL; definitions in the method section. Flows are trailing twelve months to 2026-06-30 (fiscal year 2025 plus year to date less the same period a year earlier, from the 10-Q filed 2026-07-31). Balance-sheet items are as of 2026-06-30 from the quarterly report. Interest tax shield uses the 21.0% statutory rate from the filing's rate reconciliation. WACC anchor 11.8%: cost of equity 12.2% (risk-free 5.29%, beta 1.38, ERP 5.0%), after-tax cost of debt 4.7% (synthetic AAA rating from interest coverage), debt 5% of capital.

The counter-case

The market may be correctly applying a lower multiple given the severity of the capex cycle and the fact that the \$53.4 billion gain is non-operational. If the AI capex does not translate into proportional AWS revenue growth or if FCFF remains deeply negative for an extended period, the current valuation could be justified, and the stock could suffer multiple contraction alongside earnings misses. The unprecedented \$173.0 billion TTM capex intensity (22.3% of revenue) is crushing free cash flow and could fail to generate sufficient ROI, permanently compressing net margins. The current profitability is artificially inflated by a \$53.4 billion non-recurring mark-to-market gain on Anthropic, masking underlying operating cash flow pressures, while regulatory headwinds and intense AI cloud competition pose significant risks.

Valuation

FCFF is deeply negative due to a \$173B annualized capex cycle, making a DCF unreliable. Normalized EPS is positive and sustainable, justifying an earnings multiple approach.

SCENARIO	ASSUMPTIONS	VALUE	VS PRICE
Bear (P/E)	25.0x forward EPS \$9.58 (normalized, growth +12.0%)	\$239.38	-3.6%
Base (P/E)	32.2x forward EPS \$9.58 (normalized, growth +12.0%)	\$308.33	+24.2%
Bull (P/E)	42.0x forward EPS \$9.58 (normalized, growth +12.0%)	\$402.17	+62.0%

- Anchors from the company's own history: base-case growth band +11.7% to +20.4% a year; own trailing P/E 32.19-1029.12x (median 46.03x) at the four of the last five fiscal year ends with positive earnings.
- Probability-weighted value \$309.86 (+24.8% vs price) at 25%/55%/20% weights.

Bear case assumes AI capex remains elevated, margins compress, and AWS growth slows, warranting a 25.0x multiple on normalized EPS for a \$239.38 target. Base case assumes capex begins to moderate, normalized EPS grows 12%, and AWS/Ads continue strong growth, justifying a 32.2x multiple for a \$308.33 target. Bull case assumes AI investments drive massive AWS/AI monetization, FCF recovers quickly, and market sentiment improves, expanding the multiple to 42.0x for a \$402.17 target.

No listed peer was judged comparable. The feasibility packet reports peer data as unavailable for this quarter ('No frozen peer tree available'). Accordingly, the multiple is anchored solely to the company's own five-year trailing P/E range (32.19x-1029.12x), where the 32.2x base multiple aligns with the historical low, reflecting the current heavy capex cycle.

What would change the view

Key debates

- AI infrastructure capex normalization: The \$173B annualized capex run rate crushes FCFF and near-term net margins; value hinges on AWS and advertising margins expanding enough to offset this before cash flows recover. (fact sheet capex intensity 22.3%, AWS growth 37%, operating income guidance)
- Non-recurring investment gains reliance: A \$53.4B mark-to-market gain drove Q2 net income; the market may apply a permanent discount until a baseline EPS can be established. (Q2 2026 financials, mark-to-market adjustments note)

Sensitivities the company discloses

- Foreign exchange rates on foreign-denominated cash, equivalents, and marketable securities: 5%, 10%, and 20% adverse change gives Declines of \$1.5 billion, \$3.0 billion, and \$5.9 billion
- Foreign exchange rates on intercompany balances: 5%, 10%, and 20% adverse change gives Losses of \$600 million, \$1.2 billion, and \$2.4 billion
- Inventory valuation allowance: 1% additional gives Additional cost of sales of approximately \$405 million
- Foreign exchange rates on foreign funds: 5%, 10%, 20% adverse change gives \$1.0 billion, \$2.0 billion, and \$4.1 billion declines
- Foreign exchange rates on intercompany balances: 5%, 10%, 20% adverse change gives \$400 million, \$795 million, and \$1.6 billion losses recorded to Other income (expense), net
- Inventory valuation allowance: 1% additional allowance gives Approximately \$405 million additional cost of sales

Catalysts

- Q3 2026 earnings release and updated guidance
- Signals of capex normalization or ROI acceleration on AI infrastructure
- AWS growth sustaining >30% YoY expansion
- Advertising and retail operating margin expansion
- Anthropic investment monetization or strategic partnership updates

Invalidation

- Capex run rate fails to decline or return on invested capital on AI infrastructure falls below cost of capital
- AWS growth decelerates below 20% for multiple consecutive quarters
- Normalized EPS consistently misses management's guidance of \$8.55+ range
- Antitrust or regulatory actions force structural changes to AWS or retail segments

Risks

- Global economic slowdown reducing consumer discretionary spending and Prime subscriptions
- International regulatory scrutiny and tariff/policy changes impacting trade and margins
- Intense cross-industry competition in cloud computing and AI infrastructure

- Foreign exchange volatility on \$20.4 billion in foreign funds
- Inventory valuation allowance sensitivity exposing \$405 million cost of sales per 1% increase

Short side

Not applicable; disposition is investigate_long.

Open questions

When will the AI infrastructure capex cycle moderate enough to normalize FCF and margin expansion? (forecast uncertainty)

Monitoring quarterly Capex and margin guidance to assess trajectory and ROI realization. Watch: Q3 and Q4 2026 earnings releases

Limitations

The valuation relies on an earnings multiple approach because trailing twelve-month FCFF is deeply negative (-\$9.0B) due to a \$173.0 billion annualized capex cycle, making a DCF unreliable. Normalized EPS of \$8.55 is derived by adjusting for a \$42.2 billion after-tax mark-to-market gain. The base multiple of 32.2x is anchored to the five-year historical low, which may underestimate market skepticism regarding the duration of the capex cycle and the sustainability of current AWS growth rates. This memo is an initial research product from a frozen historical filing and price; it is not investment qualification.

Software flags: exposure quote unverified:consumer demand; exposure quote unverified:regulation; exposure quote unverified:tariffs trade.

Sources

10-K for the fiscal year ended 2025-12-31, filed 2026-02-06 (accession 0001018724-26-000004).

10-Q for the quarter ended 2026-06-30, filed 2026-07-31 (accession 0001018724-26-000026).

8-K for the earnings release dated 2026-07-30, filed 2026-07-30 (accession 0001018724-26-000024).

- Price: historical close of \$248.23 on 2026-10-01.
- 8 cited claims and 16 recorded calculations; every figure in the key-figures table is bound to a tagged XBRL fact, and every calculation reproduces independently.
- Street consensus from the market-data vendor on the same date, shown for calibration only.

Model: Qwen3.6-35B-A3B-NVFP4 · run discovery-20260911 · job 426 · memo SHA-256 6f21ce5aff6419bc... · full memo and audit attached as JSON.

This note was written by a model from a single annual filing and a closing price. It is a starting point for human research, not a recommendation; nothing here has been investment-qualified.