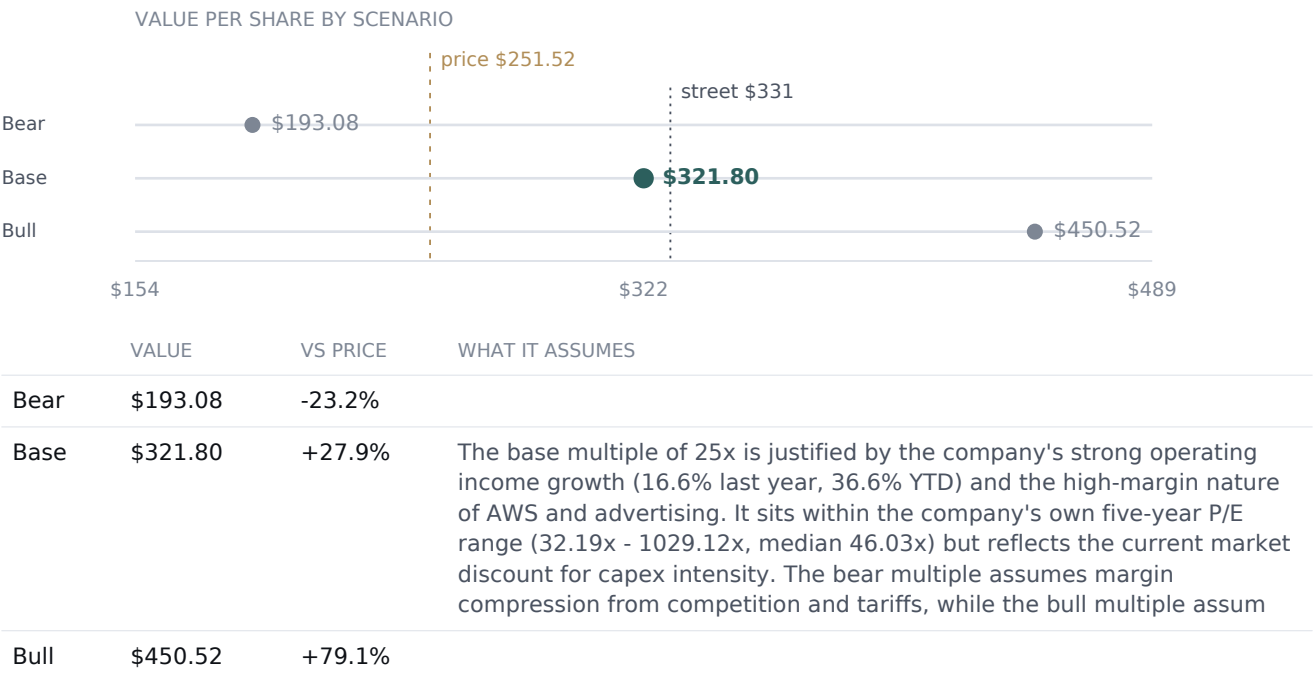


EQUITY RESEARCH / AMZN

Amazon.com Inc

LONG CANDIDATE · historical study through 2026-10-02 · horizon 540 days · EARNINGS MULTIPLE

PRICE	BASE CASE	UPSIDE	PROB-WEIGHTED	MARKET CAP	TRAILING P/E
\$251.52	\$321.80	+27.9%	\$321.80	\$2,712.97B	20.2x



STREET CHECK

Street target **\$331** (+31.4% vs price) · 57 buy / 2 hold / 0 sell · forward P/E 23.6x · EPS estimates \$12.88 this year, \$10.51 next

Our base case is **0.97x** 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 earnings growth (operating income up 36.6% YTD, AWS up 37% YoY in Q2 2026, advertising up 26% YoY), yet the market prices the stock at a trailing P/E of 20.2x, well below its own five-year median of 46.0x. The discount reflects the market's fixation on negative trailing-twelve-month free cash flow of -\$8,993.5 million caused by a \$173,028 million capex cycle for AI infrastructure, and on the \$53.4 billion one-off Anthropic mark-to-market gain that inflates reported net income. Normalizing for the \$15.9 billion discrete tax expense attributable to Anthropic adjustments and the \$2.5 billion FTC settlement charge yields normalized EPS of \$11.19, which at a base-case 25x multiple on forecast EPS of \$12.87 gives a base value of \$321.80 versus the price of \$251.52, a 27.9% upside. The thesis rests on the view that the capex cycle is an investment phase rather than a permanent margin drag, and that the high-margin AWS and advertising franchises will drive sustainable earnings power once infrastructure spending moderates.

What the market may be missing

The market prices AMZN at 20.2x trailing P/E, below its own five-year minimum of 32.19x, because it treats the negative FCFF as evidence of poor earnings quality and discounts the stock for the one-off Anthropic gain. I believe the market conflates a capital-intensive growth phase with structural margin deterioration. The operating income of \$93,712 million TTM and the 36.6% YTD operating income growth show that the core business is highly profitable; the cash flow gap is driven by \$173,028 million of capex that management explicitly frames as building future capacity. The normalized EPS of \$11.19, stripped of the \$15.9 billion Anthropic-related tax expense and the \$2.5 billion FTC charge, represents sustainable earnings power that the market does not fully capitalize.

Why the opportunity exists

Complexity. The market prices AMZN at 20.2x trailing P/E, below its own five-year minimum of 32.19x, because the accounting treatment of private-company investments (Anthropic, OpenAI) and the massive capex cycle create confusion about earnings quality. The \$53.4 billion mark-to-market gain and the \$15.9 billion tax expense make reported net income volatile and hard to normalize. Simultaneously, the negative FCFF of -\$8,993.5 million from \$173,028 million capex against \$161,403 million OCF leads the market to treat the company as cash-burning rather than cash-generating. The market cannot cleanly separate the non-recurring investment gains from sustainable operating profitability, and the capex cycle obscures the high-margin AWS and advertising engines. This complexity creates a discount that does not reflect the underlying earnings power. Evidence: Trailing P/E of 20.23x versus five-year median of 46.03x and minimum of 32.19x. TTM FCFF of -\$8,993.5 million driven by capex of \$173,028 million against OCF of \$161,403 million. The \$53.4 billion Q2 2026 gain from Anthropic adjustments and the \$15.9 billion discrete tax expense. Operating income of \$93,712 million TTM with 36.6% YTD growth, AWS 37% YoY, advertising 26% YoY.

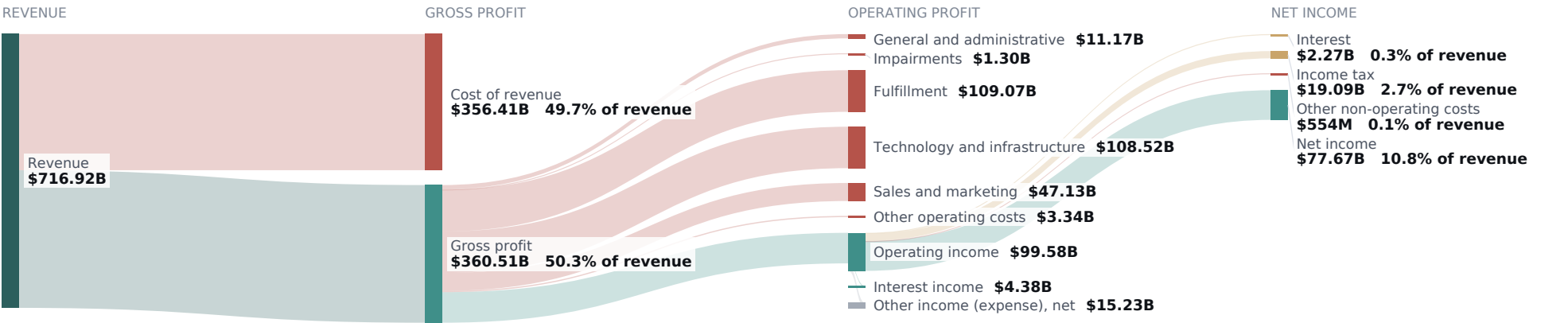
Since our last note

Thesis intact against our note of 2026-10-02 (investigate long). The shares have moved +1.3% since. Guidance versus delivery: Net sales above; Net sales above. The guidance-versus-delivery record is not directly comparable because the delivered figures in the SINCE THEN block are full-year amounts rather than quarterly results. The Q3 2026 guidance of \$197.0-\$202.0 billion net sales and \$22.5-\$26.5 billion operating income has not yet been delivered as of the research date. The Q1 2026 guidance of \$173.5-\$178.5 billion net sales was delivered at \$716,924 million for the full year, which is not comparable to a single quarter. Management's stated focus on long-term sustainable growth in free cash flow and its expectation that capex will increase in 2026 are consistent with the current build-out phase. No guidance has been missed or exceeded in a directly comparable period, so management credibility cannot be graded on delivery versus guidance. The prior memo's normalized EPS of \$8.55 versus the current \$11.19 reflects a methodological change in normalization, not a change in management's reported results.

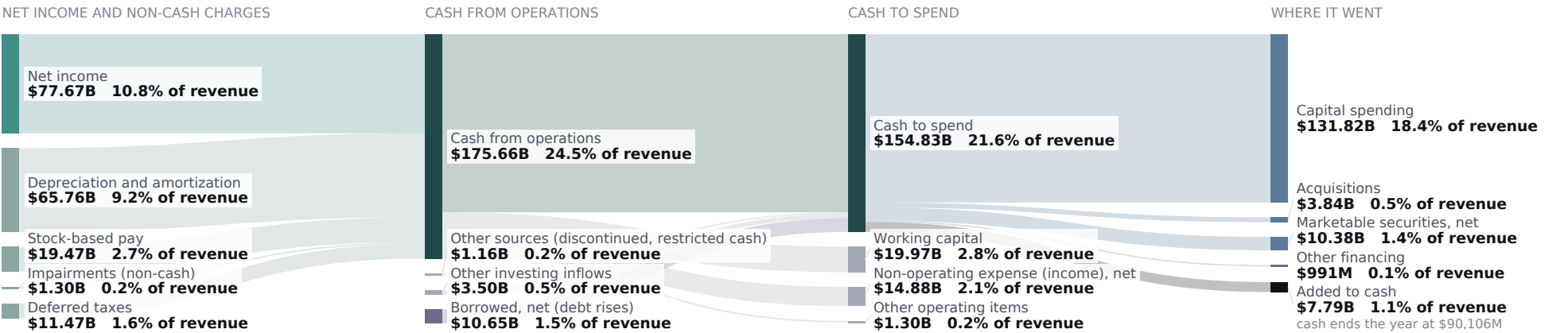
Follow the money: fiscal 2025

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 operates three segments (North America, International, AWS) serving consumers, sellers, developers, enterprises, content creators, advertisers, and employees through online/physical stores, cloud services, advertising, devices, and fulfillment networks, guided by customer obsession, invention, operational excellence, and long-term thinking.

What it sells

Online and physical stores selling hundreds of millions of unique products across dozens of categories; electronic devices (Kindle, Fire tablet, Fire TV, Echo, Ring, Blink, eero); media content; subscription services including Amazon Prime (fast free shipping on tens of millions of items, movies, series, live sports); AWS on-demand technology services (compute, storage, database, analytics, AI/ML); seller programs enabling third-party sales; advertising services (sponsored ads, display, video); fulfillment and logistics services. Amazon sells a wide range of products and services: merchandise and content purchased for resale, products offered by third-party sellers, manufactured electronic devices, and produced media content. Services include compute, storage, database, and analytics offerings (AWS), fulfillment, advertising, publishing, digital content subscriptions, and Prime membership. Product sales are recognized gross; service sales represent Amazon's net share of third-party seller revenue, AWS sales, advertising, Prime fees, and certain digital content subscriptions. Amazon also invests in satellite broadband (Amazon Leo) and autonomous vehicles for ride-hailing.

Customers and channels

Primary customer sets: consumers, sellers, developers, enterprises, content creators, advertisers, employees. Channels: online and physical stores, websites, mobile apps, Alexa, devices, streaming, physical store visits. Fulfillment via North America and International fulfillment networks, co-sourced and outsourced arrangements in certain countries, digital delivery, and physical stores. Customer service centers globally supplemented by co-sourced arrangements. Seller programs allow third parties to sell in Amazon stores; Amazon is not seller of record in those transactions. Customers include consumers, sellers, developers, enterprises, content creators, and advertisers. Channels include online stores, third-party seller marketplaces, AWS cloud services, advertising platforms, physical stores, and digital content subscriptions. Consumers primarily use credit cards, so receivables settle quickly. Marketing channels include sponsored search, third-party customer referrals, social and online advertising, and television advertising. Amazon Prime membership and shipping offers are viewed as effective worldwide marketing tools intended to be offered indefinitely.

Unit economics and costs

Seller programs generate revenue via fixed fees, a percentage of sales, per-unit activity fees, interest, or combinations thereof. Amazon is not the seller of record in third-party transactions. Fulfillment costs include operating North America and International fulfillment networks, co-sourced and outsourced arrangements, digital delivery, and physical stores. Overstocking can lead to significant inventory markdowns or write-offs and commitment costs. Net shipping costs increase due to complimentary upgrades, split-shipments, and additional long-zone shipments for holiday season. A-to-z Guarantee may require customer reimbursements up to certain limits, with costs increasing as third-party seller sales grow. Cash, cash equivalents, and marketable securities balances typically reach highest level at year-end due to quick credit card receivable settlement; accounts payable increase at year-end from inventory purchases and third-party seller sales, then decline in first three months of the year. Variable costs include product and content costs, payment processing and related transaction costs, picking/packaging/preparing orders, transportation, customer service, AWS operating costs, and a portion of marketing. Fixed costs include technology infrastructure, online stores, web services, electronic devices, digital offerings, and fulfillment network. Cost of sales was 49.7% of net sales in 2025 (down from 51.1% in 2024). Fulfillment was 15.2% (down from 15.4%). Technology and infrastructure was 15.1% (up from 13.9%). Sales and marketing was 6.6% (down from 6.9%). G&A was 1.6% (down from 1.8%). Shipping costs were \$102.7B in 2025. Amazon seeks to reduce variable costs per unit through direct sourcing, supplier discounts, and process defect reduction, while minimizing fixed cost growth through process efficiencies and a lean culture. Sellers' sales carry higher payment processing costs as a percentage of net sales than retail sales. Cost of sales was 47.7% of net sales in Q2 2026 (vs 48.2% prior year), driven by increased product and shipping costs partially offset by operational efficiencies. Shipping costs were \$27.9 billion in Q2 2026. Fulfillment costs were 14.8% of net sales. Technology and infrastructure costs were 16.5% of net sales, reflecting increased spending on infrastructure including depreciation and amortization. Sales and marketing costs were 5.8% of net sales, unchanged YoY. General and administrative costs declined 6% YoY due to decreased payroll. Other operating expense of \$90 million primarily related to asset impairments and amortization of intangible assets. Capex was \$53.1 billion in Q2 2026 (\$96.3 billion for six months), primarily for technology infrastructure (majority supporting AWS) and fulfillment network capacity, expected to increase in 2026. Property and equipment acquired under finance leases was \$563 million in Q2 2026. Cost of sales in Q2 2026 includes tariff refunds received under the IEEPA.

Segments

- **North America** - Retail and fulfillment operations in North America; includes online and physical stores, fulfillment networks, devices, advertising, and seller programs. Growth driven by increased unit sales, third-party sellers, advertising, and subscription services; fast shipping offers. FX reduced sales by \$454M and operating income by \$204M.
- **International** - Retail and fulfillment operations outside North America; includes online and physical stores, fulfillment networks, devices, advertising, and seller programs in various countries. Growth driven by increased unit sales, third-party sellers, advertising, and subscription services; fast shipping. FX increased sales by \$4.9B and operating income by \$903M. Management plans even sharper prices in international stores in 2026.

- **AWS** - Amazon Web Services: on-demand technology services including compute, storage, database, analytics, artificial intelligence and machine learning, and other services for developers and enterprises of all sizes. Growth driven by increased customer usage, partially offset by pricing changes from long-term customer contracts. FX negatively impacted operating income by \$341M. Costs primarily classified as Technology and infrastructure due to shared infrastructure.

Revenue drivers

- Product sales through online and physical stores (selection, price, convenience)
- Seller program fees: fixed fees, percentage of sales, per-unit activity fees, interest
- AWS on-demand technology services (compute, storage, database, analytics, AI/ML)
- Advertising services: sponsored ads, display, and video advertising
- Subscription services (Amazon Prime membership)
- Electronic device sales (Kindle, Fire tablet, Fire TV, Echo, Ring, Blink, eero)
- Media content production and distribution
- Fulfillment and logistics services

Competitive position

Intensely competitive across many industry sectors. Principal competitive factors in retail: selection, price, convenience, fast and reliable fulfillment. Additional factors for seller and enterprise services: quality, speed, reliability of services and tools, customers' ability and willingness to change business practices. Some competitors have greater resources, longer histories, more customers, greater brand recognition, and greater control over inputs. Competitors may secure better supplier terms, adopt more aggressive pricing, pursue restrictive distribution agreements, direct consumers to their own offerings, lock-in customers with restrictive terms, and devote more resources to technology, infrastructure, fulfillment, and marketing. The internet and AI facilitate competitive entry and comparison shopping, enhancing ability of new, smaller, or lesser-known businesses to compete. Competitors include physical/e-commerce/omnichannel retailers, publishers, web search engines, social networks, virtual assistants, e-commerce service providers, fulfillment/logistics companies, IT/cloud companies, consumer electronics companies, grocery companies, advertising companies, and healthcare providers. Amazon competes across e-commerce, cloud computing, advertising, digital content, and logistics. Management emphasizes price, selection, convenience, fast shipping, and customer trust as core competitive levers. In AWS, long-term customer contracts create pricing pressure. Amazon Prime membership and shipping offers are viewed as effective worldwide marketing tools intended to be offered indefinitely. Amazon invests in satellite broadband (Amazon Leo) and autonomous vehicles for ride-hailing as new competitive initiatives. Management notes competition for traffic sources affects marketing costs. The company seeks to leverage fixed costs and scale advantages while maintaining a lean culture. Intensely competitive across e-commerce, cloud, advertising, digital content, electronic devices, grocery, healthcare, communications, and transportation/logistics. Competitors include well-funded new entrants, established companies expanding into Amazon's segments, and cross-border competition. Some competitors have greater resources, longer histories, more customers, or greater brand recognition, particularly in newer products and geographies. AI and new technologies facilitate competitive entry and comparison shopping, enhancing ability of smaller businesses to compete. Competition may require increased spending or lower prices, potentially reducing sales and profits.

Industry direction

The worldwide marketplace is evolving rapidly and intensely competitive. New and enhanced technologies including search, web and infrastructure computing services, practical applications of AI and machine learning, digital content, satellites, and electronic devices continue to increase competition. Development of new business models and entry of new well-funded competitors. Business combinations and alliances strengthen competitive positions. AI facilitates competitive entry and comparison shopping. International physical, e-commerce, omnichannel retail, cloud services, and other services are growing, with competition intensifying through adoption of evolving business models. Local companies may have substantial competitive advantage due to greater understanding of local customers and established local brand names. Management expects continued advances in technology - speed and reduced cost of processing power, data storage, analytics, improved wireless connectivity, and practical applications of AI and machine learning - to improve internet user experience and increase ubiquity. Macroeconomic factors including inflation, interest rates, resource and supply volatility (including memory chips), global tariff and trade policies, and AI adoption have direct and indirect impacts on results that are difficult to predict, isolate, and quantify. Management expects some or all of these factors to continue impacting results into Q1 2026. The rate of growth of the internet, online commerce, cloud services, and new and emerging technologies remains a key uncertainty. Macroeconomic factors including inflation, interest rates, resource and supply volatility (including memory chips), global economic and geopolitical developments, and unpredictable tariff/trade policy shifts impact results. AI development and adoption are key growth drivers. Management expects continued additional investments in AI initiatives. Some or all macro factors expected to continue impacting results into Q3 2026. Satellite network for global broadband service approaching commercial viability. Autonomous vehicles for ride-hailing services (Zoox) received NHTSA approval for paid commercial service.

Recent developments

- Q2 2026 net sales \$200.6 billion (+20% YoY); operating income \$27.5 billion (+43% YoY); net income \$62.6 billion (\$5.75 diluted EPS) vs \$18.2 billion (\$1.68) prior year
- AWS grew 37% YoY in Q2 2026, fastest growth in 18 quarters, to \$169 billion annualized revenue run rate; AI and Chips businesses each exceeded \$25 billion annualized run rates
- Free cash flow turned negative: -\$7.6 billion TTM vs +\$18.2 billion prior year, driven by \$66.1 billion YoY increase in capex primarily for AI investments
- Other income of \$53.4 billion in Q2 2026 primarily from upward adjustments for observable price changes in Anthropic nonvoting preferred stock; \$69.1 billion for six months
- Invested \$28.7 billion in OpenAI Series C Preferred Stock for six months ended June 30, 2026 (including \$13.7 billion in Q2); funded remaining \$21.3 billion commitment subsequent to June 30; invested \$10.0 billion in Anthropic nonvoting preferred stock in Q2 2026
- Income tax provision for six months was \$27.8 billion, including \$15.9 billion net discrete tax expense primarily attributable to Anthropic investment adjustments
- Long-term debt increased from \$65.6 billion (Dec 31, 2025) to \$128.9 billion (June 30, 2026); \$67.0 billion long-term debt proceeds for six months; no borrowings under revolving credit facilities or commercial paper programs

- Total assets grew from \$818.0 billion to \$1,095.7 billion; property and equipment net grew from \$357.0 billion to \$446.0 billion

Management outlook

Q3 2026 guidance (as of July 30, 2026): Net sales expected between \$197.0 billion and \$202.0 billion, or 9% to 12% growth vs Q3 2025. Excluding Prime Day impact in both 2025 and 2026, Q3 2026 YoY growth would be nearly 400 basis points higher. Guidance anticipates unfavorable FX impact of approximately 80 basis points. Operating income expected between \$22.5 billion and \$26.5 billion, compared with \$17.4 billion in Q3 2025. Guidance assumes no impact from energy derivative contract remeasurements, and that no additional business acquisitions, restructurings, or legal settlements are concluded. Management expects capex to increase in 2026 and expects to undertake additional financing activities in 2026.

Management expects continued additional investments in AI initiatives. Macro factors including tariff/trade policy shifts, supply volatility (memory chips), inflation, interest rates, and customer demand expected to continue impacting results into Q3 2026. Management's financial focus is long-term, sustainable growth in free cash flow. They expect spending in technology and infrastructure to increase over time, which can negatively impact short-term free cash flow, as they add infrastructure and employees including AI and machine learning initiatives. Capex is expected to increase in 2026. Management expects continued impact from macroeconomic factors (inflation, interest rates, supply volatility, tariff/trade policies, AI adoption) into Q1 2026. They intend to continue offering Prime membership and shipping offers indefinitely. They seek to reduce variable costs per unit, leverage fixed costs, turn inventory quickly, and collect from consumers before payments to vendors become due. They expect variability in inventory turnover and accounts payable days. Management believes increasing diversification beyond the U.S. economy benefits shareholders over the long term. They will from time to time consider acquisitions, investments, debt restructuring, share repurchases, dividends, or other financing for strategic reasons. The filing contains forward-looking statements based on expectations, estimates, and projections as of the date of filing. Management states it seeks to be Earth's most customer-centric company guided by customer obsession, passion for invention, commitment to operational excellence, and long-term thinking. No specific quantitative outlook or guidance is provided in the excerpt.

Accounting flags

- Energy contracts subject to derivative accounting with net unrealized gains in Q2 2026 primarily related to AWS; fair value measurements do not impact cash flows but may be material to technology and infrastructure costs in future periods
- Satellite network costs expensed until commercial viability achieved; certain costs will be capitalized once service achieves commercial viability including sales to customers
- Anthropic and OpenAI equity investments in private companies adjusted for observable price changes or impairments; \$53.4 billion Q2 gain primarily from upward adjustments for observable price changes in Anthropic nonvoting preferred stock
- Cost of sales in Q2 2026 includes tariff refunds received under the IEEPA
- 2026 Notice applied retroactively to 2025, expected to result in significant decrease of 2024 and 2025 cash taxes paid
- Income tax provision for six months ended June 30, 2026 was \$27.8 billion including \$15.9 billion net discrete tax expense primarily attributable to Anthropic investment adjustments

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	20.2x 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	\$2,712.97B		29.0x 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 12.1% (risk-free 5.24%, beta 1.38, ERP 5.0%), after-tax cost of debt 4.6% (synthetic AAA rating from interest coverage), debt 5% of capital.

The counter-case

The normalization approach is debatable. The prior memo removed the full \$53.4 billion Anthropic gain from earnings, yielding normalized EPS of \$8.55. The current approach removes only the \$15.9 billion tax expense associated with that gain, leaving the gain itself in earnings, which produces normalized EPS of \$11.19. If the gain is truly non-recurring, the prior normalization is more conservative and the base case should be lower. Additionally, the base multiple of 25x is below the company's own five-year minimum of 32.19x, which the software flags as outside the historical range. The market may be correctly pricing the stock at a low multiple because the earnings quality is genuinely poor: the \$135,281 million TTM net income includes \$53.4 billion of non-cash private-company mark-to-market gains that could reverse, and the operating cash flow minus capex of -\$11,625 million shows the business is not generating distributable cash. A 25x multiple on earnings that depend on volatile private-company valuations may not be justified. The base multiple of 25x sits below the company's own five-year minimum P/E of 32.19x, meaning even the base case requires the market to re-rate upward from a level that is already at a historical low. The negative FCFF of -\$8,993.5 million is not a one-off: management explicitly expects capex to increase in 2026, and the \$173,028 million TTM capex against \$161,403 million OCF means the company is consuming cash faster than it generates it. The \$53.4 billion Anthropic gain and the \$15.9 billion tax expense are inherently volatile private-company valuations that could reverse. Long-term debt doubled from \$65.6 billion to \$128.9 billion in six months to fund this build-out. If AI infrastructure returns on invested capital fall below the 11.79% WACC, the capex cycle becomes a permanent margin drag rather than a growth investment, and the 25x multiple would be generous rather than conservative.

Valuation

The fact sheet shows negative trailing twelve-month FCFF (-\$8,993.5 million) due to massive capital expenditure, making a standard DCF on FCFF infeasible as the calculator requires positive starting cash flow. However, diluted EPS is positive (\$12.43) and sustainable, driven by high-margin AWS and advertising segments, making an earnings multiple the appropriate valuation method.

SCENARIO	ASSUMPTIONS	VALUE	VS PRICE
Bear (P/E)	15.0x forward EPS \$12.87 (normalized, growth +15.0%)	\$193.08	-23.2%
Base (P/E)	25.0x forward EPS \$12.87 (normalized, growth +15.0%)	\$321.80	+27.9%
Bull (P/E)	35.0x forward EPS \$12.87 (normalized, growth +15.0%)	\$450.52	+79.1%

- 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 \$321.80 (+27.9% vs price) at 20%/60%/20% weights.

Bear case (\$193.08, -23.2%): Assumes capex intensity remains above 20% of revenue for multiple quarters, AWS growth decelerates below 20%, and the Anthropic/OpenAI valuations reverse, producing negative mark-to-market charges. The 15x multiple reflects earnings quality concerns and the market's continued focus on negative FCFF. Base case (\$321.80, +27.9%): Assumes 15% EPS growth driven by AWS and advertising, capex intensity moderating toward the historical FCFF margin median of 5.45%, and the market re-rating from 20.2x to 25x as the capex narrative fades. The 25x multiple is below the five-year median of 46.0x but reflects the high quality of AWS and advertising earnings. Bull case (\$450.52, +79.1%): Assumes AWS growth accelerates further, capex intensity normalizes to historical levels turning FCFF positive, advertising sustains 25%+ growth, and the multiple re-rates toward the five-year median of 46.0x as the market recognizes sustainable earnings power. The 35x multiple reflects a partial re-rating toward the historical median.

No listed peer was judged comparable. No peer tree available for this quarter; do not substitute vendor industry peers.

What would change the view

Key debates

- Capex intensity normalization: The massive gap between operating income and free cash flow is driven by capex. If capex intensity moderates, FCFF turns positive, supporting a higher valuation. (Fact sheet: Capex \$173,028M TTM vs OCF \$161,403M TTM; Management expects capex to increase in 2026 but focus on long-term sustainable growth in free cash flow.)
- AWS and Advertising margin expansion: These segments drive profitability. Continued growth in high-margin services offsets lower-margin retail growth. (Business read: AWS grew 37% YoY in Q2 2026; Advertising grew 26% YoY; Operating income growth YTD 36.6%.)

Sensitivities the company discloses

- Foreign exchange rates on foreign funds: 5%, 10%, and 20% adverse change gives Declines of \$1.5 billion, \$3.0 billion, and \$5.9 billion on \$29.7 billion foreign funds balance
- Foreign exchange rates on intercompany balances: 5%, 10%, and 20% adverse change gives Losses of \$600 million, \$1.2 billion, and \$2.4 billion recorded to Other income (expense), net
- Inventory valuation allowance: 1% additional inventory valuation allowance gives Additional cost of sales of approximately \$405 million
- Interest rates on long-term debt fair value: Rising or declining interest rates gives Fair value of fixed-rate long-term debt increases in periods of declining rates and declines in periods of increasing rates; no impact on consolidated financial statements as carried at amortized cost
- Equity investment valuations: Market price volatility gives Recorded value of \$69.1 billion in equity, equity warrant, and convertible debt investments subject to market price volatility; public company investments of \$5.0 billion recorded at fair value; private company valuations inherently more complex; market sensitivities not practicable

Catalysts

- Q3 2026 earnings release confirming operating income within the \$22.5-\$26.5 billion guidance range and validating the 9-12% revenue growth outlook
- Evidence of capex intensity moderating below 22.3% of revenue, turning FCFF positive and shifting the narrative from cash burn to cash generation
- AWS growth sustaining above 30% YoY, reinforcing the high-margin earnings engine that supports a higher multiple
- Anthropic or OpenAI investment valuations stabilizing or being monetized, reducing the volatility in reported net income
- Advertising revenue growth sustaining above 25% YoY, demonstrating the durability of the second-highest-margin segment
- Management commentary on free cash flow normalization timeline, which could re-anchor the market's multiple toward the five-year median of 46.0x

Invalidation

- Capex intensity remains above 20% of revenue for multiple consecutive quarters without a corresponding increase in operating income, confirming the capex cycle is not a growth investment but a permanent margin drag
- AWS growth decelerates below 20% for two or more consecutive quarters, undermining the high-margin earnings engine that justifies the 25x multiple
- The Anthropic or OpenAI private-company valuations reverse, producing large negative mark-to-market charges that expose the fragility of reported earnings
- Normalized EPS consistently falls below \$11.19, indicating the normalization assumptions overstate sustainable earnings power
- Regulatory or antitrust actions force structural changes to AWS or retail segments that impair the competitive position
- Interest coverage falls below 15x or net debt rises materially as the company continues to fund capex through debt rather than operating cash flow

Risks

- Capex of \$173,028 million TTM against OCF of \$161,403 million means the company is consuming cash faster than it generates it; management expects capex to increase further in 2026
- Private-company equity investments valued at \$69.1 billion are subject to market price volatility and could produce large negative adjustments
- Long-term debt increased from \$65.6 billion to \$128.9 billion in six months, funding the capex cycle rather than operating cash flow
- Tariff and trade policy shifts, supply volatility including memory chips, and inflation continue to impact results into Q3 2026
- Intense competition across e-commerce, cloud, advertising, and logistics may require increased spending or lower prices, reducing margins
- China-based sellers and suppliers account for significant portions of third-party seller services, advertising revenues, and components; trade disputes could adversely affect results
- The base multiple of 25x is below the company's own five-year minimum P/E of 32.19x, meaning the base case requires a re-rating from a historically depressed level
- Seasonality concentrates retail sales in Q4; a weak holiday season could impair full-year earnings and the multiple

Short side

A short is not the primary thesis here because the base case value of \$321.80 exceeds the price of \$251.52. However, a short would be interesting if the normalization assumptions prove wrong: if the \$53.4 billion Anthropic gain is truly non-recurring and the prior memo's approach of removing the full gain is correct, normalized EPS drops to approximately \$8.55, and a 25x multiple on that EPS yields only \$213.75, below the current price. Borrow availability for AMZN is typically ample given its market cap of \$2,712,973.6 million, so squeeze risk is low. The timing risk is that the capex cycle could turn positive FCFF within 12-18 months, re-rating the stock upward. The unbounded loss risk is modest for a mega-cap, but the earnings volatility from private-company mark-to-market adjustments means reported EPS can swing dramatically in either direction, making a short vulnerable to a single quarter's gain reversal.

Open questions

What is the return on invested capital for the \$173,028 million TTM capex, and does it exceed the 11.79% WACC? (missing fact)

The fact sheet does not disclose segment-level ROIC or the payback period for AI infrastructure. Without this, the assumption that capex is a growth investment rather than a margin drag cannot be verified. Monitor management commentary on infrastructure utilization rates and AWS margin trajectory. Watch: Management disclosure of AWS segment operating margin or capex-to-revenue guidance for 2027

Will the Anthropic and OpenAI private-company valuations hold or reverse, and what is the sensitivity of reported net income to a 20% decline in those valuations? (forecast uncertainty)

The \$69.1 billion recorded value in equity, equity warrant, and convertible debt investments is subject to market price volatility, and the company states market sensitivities are not practicable. A reversal would materially reduce reported EPS and the multiple. Monitor quarterly mark-to-market adjustments. Watch: Next quarterly filing showing negative adjustments to Anthropic or OpenAI investment values

Does the normalization approach correctly treat the \$15.9 billion tax expense as removable while retaining the \$53.4 billion gain in earnings? (forecast uncertainty)

The prior memo removed the full gain, yielding normalized EPS of \$8.55. The current approach removes only the tax expense, yielding \$11.19. If the gain is non-recurring, the prior approach is more conservative and the base case should be lower. This is a methodological choice, not a missing fact, but it materially affects the valuation. Watch: A quarter with no Anthropic-related gains or a negative adjustment, confirming the gain is non-recurring

Will capex intensity moderate from 22.3% of revenue toward the historical FCFF margin median of 5.45%, and on what timeline? (forecast uncertainty)

Management states it expects capex to increase in 2026 and focuses on long-term sustainable growth in free cash flow. The historical FCFF margin median is 5.45% but the current margin is -1.16%. The timeline for normalization is not disclosed. Monitor quarterly capex-to-revenue ratios. Watch: Capex-to-revenue ratio falling below 15% in any quarter

Limitations

The base multiple of 25x sits below the company's own five-year minimum P/E of 32.19x, which the software flags as outside the historical range. The stated justification is that the current capex intensity depresses the multiple, but this means the base case requires the market to re-rate upward from a historically depressed level, which is not guaranteed. The normalization approach differs materially from the prior memo: the prior memo removed the full \$53.4 billion Anthropic gain, yielding normalized EPS of \$8.55, while the current approach removes only the \$15.9 billion tax expense associated with that gain, yielding normalized EPS of \$11.19. If the gain is truly non-recurring, the prior normalization is more conservative and the base case should be lower. The DCF method was infeasible because TTM FCFF is negative at -\$8,993.5 million, so the earnings multiple is the only available method. The earnings multiple does not capture the cash flow drag from capex, which is the central debate. No peer comparison is available for this quarter. The forecast growth of 15% is within the historical band of 11.7% to 20.4% but assumes capex intensity moderates, which management has not confirmed. Software checks raised during valuation: the base P/E 25.0x sits outside the company's own five-year range 32.19-1029.12x; the stated reason: The base multiple of 25x is below the company's five-year median of 46.03x but above the minimum of 32.19x. It is justified by the high quality of earnings (AWS, Advertising) and the potential for margin expansion as capex intensity normalizes, despite the current negative FCFF.. 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; multiple outside anchors.

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 \$251.52 on 2026-10-02.
- 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: qwen3.8-flash-next-iq2_xs · run discovery-20260911 · job 521 · memo SHA-256 de1de814da882372... · 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.