



# Amazon Presentation

August 2020

Fred Strauss



# What does Amazon do?

- Started in 1994 by Jeff Bezos (age 30), as an online bookstore
- Amazon listed on the NASDAQ stock exchange in 1997
- Sales in 1997 of \$148 million; Sales in 2019 of \$281 billion; Growth rate of 40% p.a.
- Growth was achieved without raising any additional capital and with no debt (Amazon raised \$49 million with its IPO in 1997)
- Amazon has generated free cash flow every year since 2001
- In every annual report since 1997, Jeff Bezos enclosed a copy of his original 1997 letter to shareholders to help investors decide if Amazon is the right kind of investment for them

# What does Amazon do?

From the 1997 letter to shareholders:

- “We believe that a fundamental measure of our success will be the shareholder value we create over the long term. This value will be a direct result of our ability to extend and solidify our current market leadership position. The stronger our market leadership, the more powerful our economic model. Market leadership can translate directly to higher revenue, higher profitability, greater capital velocity, and correspondingly stronger returns on invested capital”
- “Because of our emphasis on the long term, we may make decisions and weigh tradeoffs differently than some companies”



# What does Amazon do?

From the 1997 letter to shareholders:

- “We will continue to focus relentlessly on our customers”
- “We will continue to make investment decisions in light of long-term market leadership considerations rather than short-term profitability considerations or short-term Wall Street reactions”
- “We will make bold rather than timid investment decisions”
- “We will continue to learn from both our successes and our failures”
- “When forced to choose between optimizing the appearance of our GAAP accounting and maximizing the present value of future cash flows, we’ll take the cash flows”

# What does Amazon do?

For Amazon, it is all about:

- The Long Term
- Sustainable Growth in Free Cash Flow
- Obsess Over Customers
- Market Leadership
- Aggressive Investment to expand and Leverage Customer Base



# How does Amazon make money?

- Amazon's primary source of revenue is the sale of a wide range of products and services to customers
- Products offered through online (Amazon.com) and physical stores (Amazon Books, Amazon Go, Whole Foods Market) are either purchased for resale by Amazon, or products offered by third party sellers
- Amazon also manufacture and sell electronic devices (Kindle, Echo, Fire Tablet, Fire TV)
- Amazon also produces media content (Prime video with Amazon Original content)
- Amazon offers a membership program, Amazon Prime (unlimited free shipping, unlimited streaming of movies and TV episodes)

# How does Amazon make money?

- In addition, Amazon provides services such as advertising to sellers (sponsored ads and video advertising) and fulfillment of third-party orders
- In respect of third-party sellers, Amazon is not the seller of the product but earns fees
- AWS (Amazon Web Services) offers a broad set of compute, storage, database offerings to developers and enterprises of all sizes
- Amazon also serves authors and independent publishers with Kindle Direct Publishing



# Operating Segments

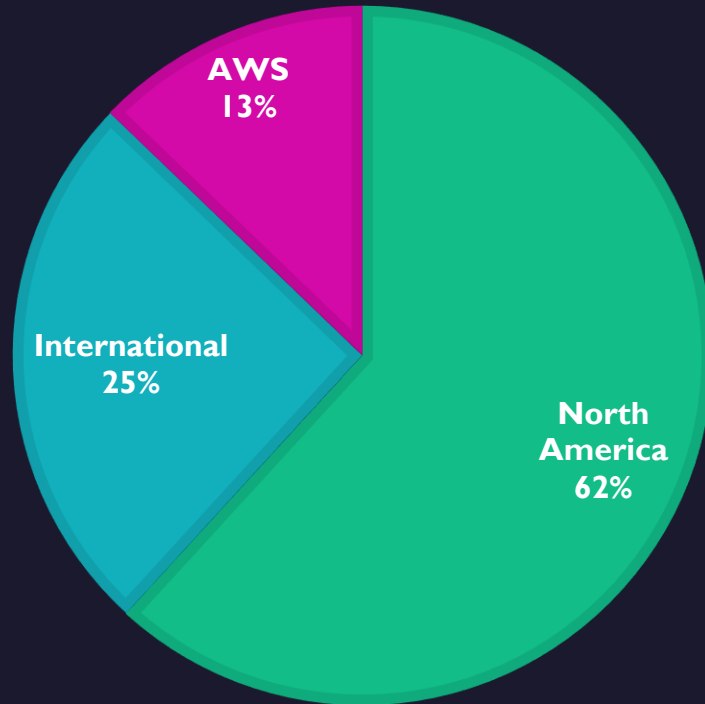
- North America
- International
- Amazon Web Services



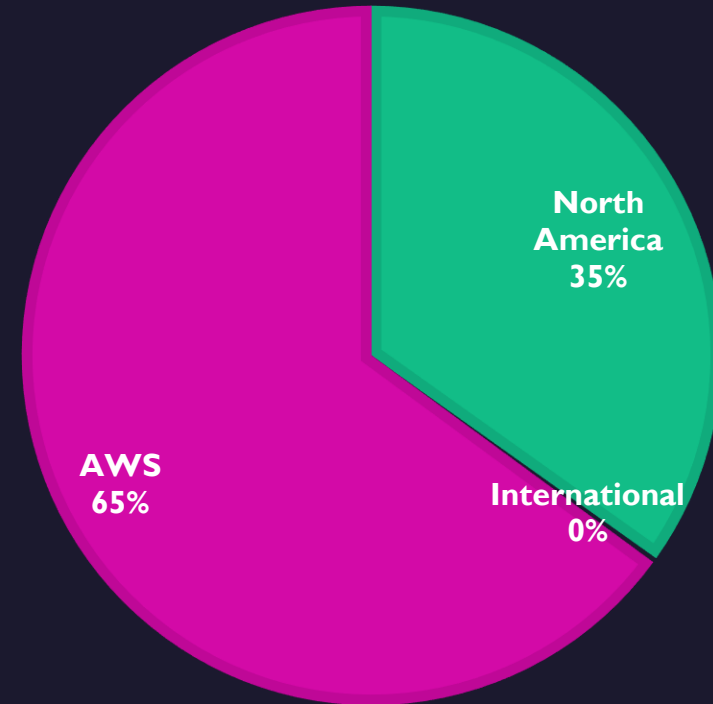


# Segment Analysis

**SALES**

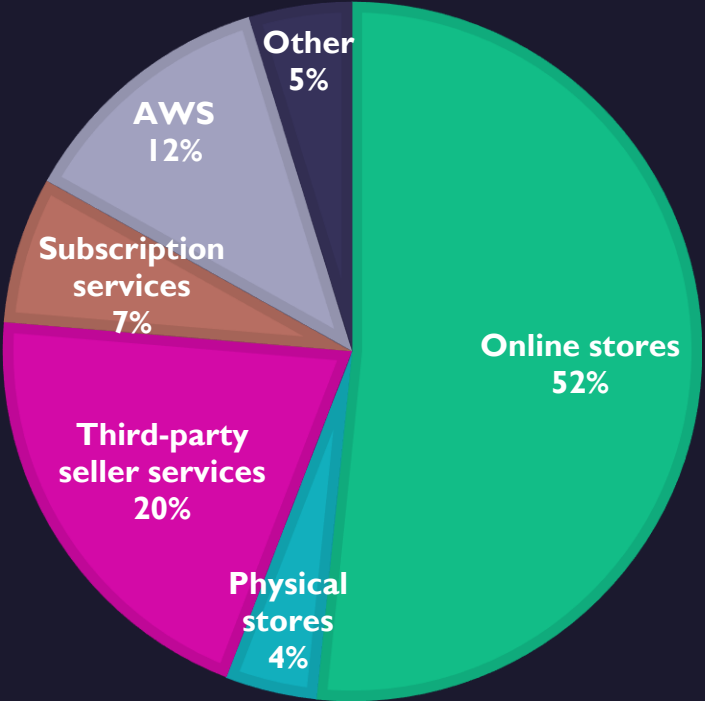


**OPERATING INCOME**

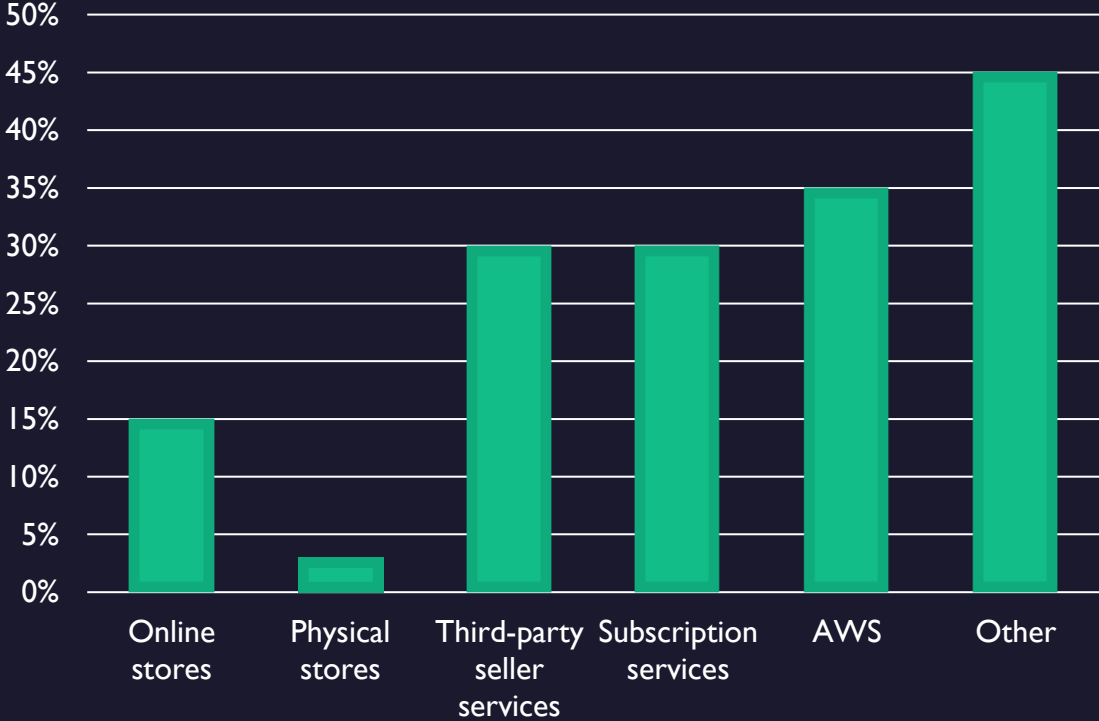


# Segment Analysis

### SALES BREAKDOWN



### SALES Y/Y GROWTH



# Major Profit Drivers

- Shift to online shopping
- Prime membership program
- Disruptive technology trends for example Cloud, AI, Amazon Go
- New markets
- Innovation



# Competitors

- Broad range of competitors from many different industries
- Physical store retailers, e-commerce, shopping websites, digital media, search engines
- Major technology competitors: eBay, Google, Microsoft, Apple, Netflix
- Microsoft in Cloud



# Competitive Advantages

- Distribution warehouses
- Logistics and delivery expertise
- Huge Customer base
- AI and machine learning (including Alexa)
- AWS
- Competitively priced products including Amazon Prime
- Trust and Reputation

# Opportunities

- Technology makes users more productive, more efficient, more competitive
- Latest technology is a must-have for businesses and other users
- AI (AWS, Alexa, Echo Auto) and Machine Learning (for example, Formula 1, Bundesliga)
- Expanded service offering to third-party sellers
- Grocery delivery
- Innovation - Remains Day 1 for Amazon



# Risks

- Competition
- Growth Rate
- International Operations and Entry into new markets
- Reputation (unlawful activities of sellers)
- Government Regulation
- Reliance on Jeff Bezos for strategy / major decisions (not day-to-day operations)







Indicative Valuation										
<b>Discount Rate</b>	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29
10-Year Bond Rate	1.0%	1.0%	1.0%	1.5%	2.0%	3.0%	4.0%	5.0%	5.0%	5.0%
MSFT Risk Premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Discount Rate	6.0%	6.0%	6.0%	6.5%	7.0%	8.0%	9.0%	10.0%	10.0%	10.0%
<b>Growth Rates</b>	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29
Free Cash Flow	30.0%	25.0%	20.0%	20.0%	15.0%	15.0%	10.0%	10.0%	10.0%	10.0%
Required Rate of Return										10.0%
Growth Rate										5.5%
Terminal Discount Rate										4.5%
<b>Free Cash Flow Forecast</b>	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29
Free Cash Flow	33,573	41,966	50,359	60,431	69,495	79,919	87,911	96,702	106,373	117,010
Terminal Value										2,600,220
Adjusted Free Cash Flow	33,573	41,966	50,359	60,431	69,495	79,919	87,911	96,702	106,373	2,717,230
Discount Factor	0.943	0.890	0.840	0.788	0.737	0.682	0.626	0.569	0.517	0.470
NPV	31,672	37,349	42,282	47,642	51,204	54,523	55,023	55,023	55,023	1,277,754
NPV Sum	1,707,494									
Cash/(Debt) Adjustment	0									
Valuation	1,707,494									
Shares Outstanding	501									
<b>Valuation per Share</b>	<b>\$3,408.17</b>									