

AMAZON.COM

AMZN – THE GENERATIONAL CALL

January 17, 2017

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WHY THIS BLACK BOOK EXISTS

1

‘ENOUGH?’ NOT EVEN CLOSE... TREND BEARISH, TAIL BULLISH

There's never been a company in our collective lifetimes that played a better game of gaming consumer behavior. It's the Garry Kasparov of the Consumer. Securing the Pipe, Price, Content, and now Final Mile and ultimately VR and consumer experiences we can't even conceive (that it's spending for today) – that's the REAL \$100 EPS call (not consensus \$25). But there's a cost – and when growth slows (4Q?) earnings matter, and they're not there today.

2

WHAT WE LEARNED ABOUT AMAZON

49% of US households have Prime, vs 29% just three years ago. It's not going to 100%. Prime adds approaching sub-prime and frequency of purchases is slowing. We need more households...or far deeper penetration/acceleration in purchases in lower income demos. Now you wonder why Bezos is producing Manchester by the Sea, bidding vs Turner for Sports streaming, and going at NFLX, Spotify and Apple's jugular?

3

WHAT WE LEARNED ABOUT EVERYONE ELSE

The Amazon ecosystem affects everyone from WMT to GPS to NFLX to AAPL, to ETSY to GME to Amex to the USPS to Golden Retriever breeders to gas stations. We'd argue that the logical targets like B/BBY and DKS will see incrementally less 'Amazon-ing'. Companies selling consumer durables (tools, auto parts, washing machines, etc..) are next. Yes, gas will come. UBER. Even the mighty ULTA need to plan appropriately. And yes, people will buy Porterhouses on AMZN.

HEDGEYE RETAIL IDEA LIST (PICK A DIRECTION!)

©HEDGEYE RISK MANAGEMENT

BEST LONG IDEAS		TRADE	TREND	TAIL
NKE	Nike, Inc.	✓	✓	✓
WMT	Wal-Mart	✓	✓	✓
RH	Restoration Hardware	✓	✓	✓
OTHER ACTIVE LONGS				
KATE	Kate Spade	-	✓	✓
DKS	Dick's Sporting Goods	✓	✓	-
RL	Ralph Lauren	-	-	✓
LONG VETTING BENCH				
AMZN	Amazon.com	X	X	✓✓✓
GIL	Gildan			
LB	L Brands			
ABF-GB	ABF/Primark			
ULTA	Ulta Salon			
WWW	Wolverine Worldwide			

Huh?



BEST SHORT IDEAS		TRADE	TREND	TAIL
HBI	HanesBrands	X	X	X
TGT	Target	X	X	X
KSS	Kohl's	X	X	X
LULU	Lululemon	✓	X	X
FL	Foot Locker	X	X	X
OTHER ACTIVE SHORTS				
CRI	Carters Inc.	X	X	X
TIF	Tiffany	X	X	X
HIBB	Hibbett Sports	X	X	X
BBBY	Bed, Bath & Beyond	X	X	X
WSM	Williams-Sonoma	X	X	X
AMZN	Amazon.com	X	X	✓✓✓
SHORT VETTING BENCH				
CTC.A	Canadian Tire Corp			
GPS	Gap, Inc			
JWN	Nordstrom			
JCP	JC Penney			
TLRD	Tailored Brands			
FINL	Finish Line			
LUX	Luxottica			
M	Macy's			
PRTY	Party City			
ELY	Callaway Golf			
COLM	Columbia			
GNC	GNC Inc			
VSI	Vitamin Shoppe			
FRAN	Francesca's			

Yah...I get it...

"McGough, pick a direction on AMZN"

TRADE and TREND = Bearish.

The LT story is bigger than people think.

But TREND comes before TAIL.

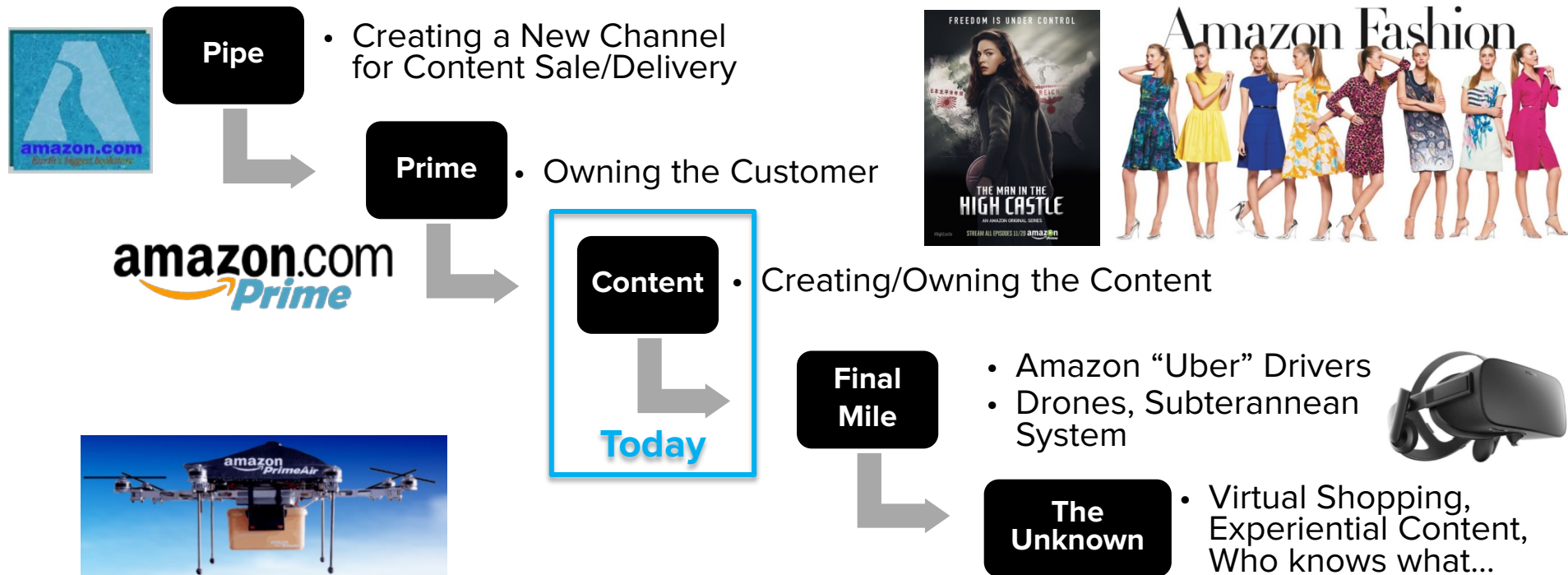
Bench = timing is not right, or research is in progress.

Source: Hedgeye Risk Management



NOT NEARLY 'ENOUGH'

HERE'S THE GENERATIONAL CALL



STAGES OF AMAZON

People ‘get’ the dominance of Amazon today. But the reality is that never before has any retailer/content company/delivery company/consumer experience company aligned the pieces of the Strategic Puzzle across the consumer spectrum.

AMAZON 1.0 = THE PIPE

CREATING A NEW METHOD OF CONTENT ORDER/DELIVERY



Welcome to Amazon.com
Books!

One million titles,
consistently low prices.

(If you explore just one thing, make it our personal notification service. We think it's very cool!)

SPOTLIGHT! -- AUGUST 16TH

These are the books we love, offered at Amazon.com low prices. The spotlight moves EVERY day so please come often.

ONE MILLION TITLES

Search Amazon.com's [million title catalog](#) by author, subject, title, keyword, and more... Or take a look at the [books we recommend](#) in over 20 categories... Check out our [customer reviews](#) and the [award winners](#) from the Hugo and Nebula to the Pulitzer and Nobel... and [bestsellers](#) are 30% off the publishers list...

Circa 1994

Circa 2000



AMAZON 2.0 = PRIME

OWNING THE CONSUMER

amazon.com
Prime

=



Free 2-Day Shipping

Preferential Pricing

**People paying for the 'privilege' to shop at
Amazon – a la Costco**

Costco offered lowest price/value. Prime offered free shipping.

Others are trying to create a similar model, but will likely ultimately fail.

FAIL? =

GNC

BED BATH & BEYOND

RH
RESTORATION HARDWARE

BEYOND SHIPPING - TRY TO COMPETE WITH THIS BOX



\$99
Per Year

=

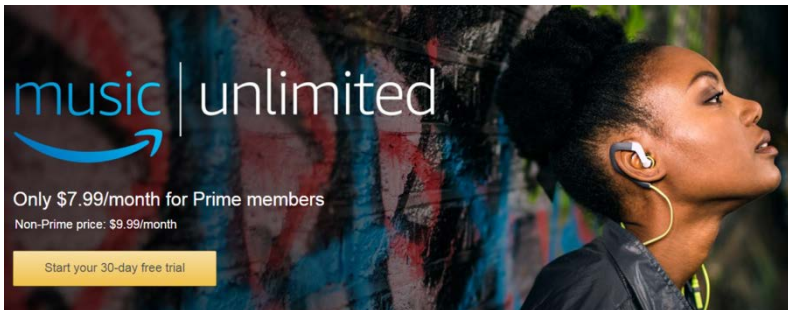


\$1,000+
Per Year

COMPANIES WITH SERVICES SIMILAR TO THAT OFFERED IN PRIME

Prime music, prime drive, prime photos, prime video, prime magazines, prime books... the list goes on (see next page)

AMAZON MUSIC & DRIVE



Cloud Storage Drive Service Comparison

	Free Storage	Higher Capacity (Storage & Monthly Price)	
Amazon Cloud Drive	5 GB	Unlimited	\$5.00
Apple iCloud Drive	5 GB	1 TB	\$9.99
Dropbox	2 GB	1 TB	\$9.99
Google Drive	15 GB	1 TB	\$9.99
Microsoft OneDrive	5 GB	50 GB	\$1.99
pCloud	20GB	2 TB	\$9.99



Online Music Streaming Service Comparison

	Monthly Price					Selectability	Music Library Size
	Prime Member	Non-Prime Member	Student	Echo Owner	Family Plan (6ppl)		
Amazon Music Unlimited	\$7.99	\$9.99	\$9.99	\$3.99	\$14.99	Yes	Vast (10mm+)
Spotify Premium	\$9.99	\$9.99	\$4.99	\$9.99	\$14.99	Yes	Vast (30mm+)
Pandora One	\$4.99	\$4.99	\$4.99	\$4.99	N/A	No	Vast
Google Play Music Unlimited	\$9.99	\$9.99	\$9.99	\$9.99	\$14.99	Yes	Vast (30mm+)
Apple Music	\$9.99	\$9.99	\$4.99	\$9.99	\$14.99	Yes	Vast (35mm)
Prime Music	Free	NA	Included in Prime	Included in Prime	Included in Prime	Yes	Limited (2mm)

AMAZON 3.0 = CONTENT

Content	Quantity
Original Series	28
Coming Soon Series	18
Amazon Movies	16
Upcoming Movies	11
US Exclusive Distribution	9
UK Exclusive Distribution	26
Total	108

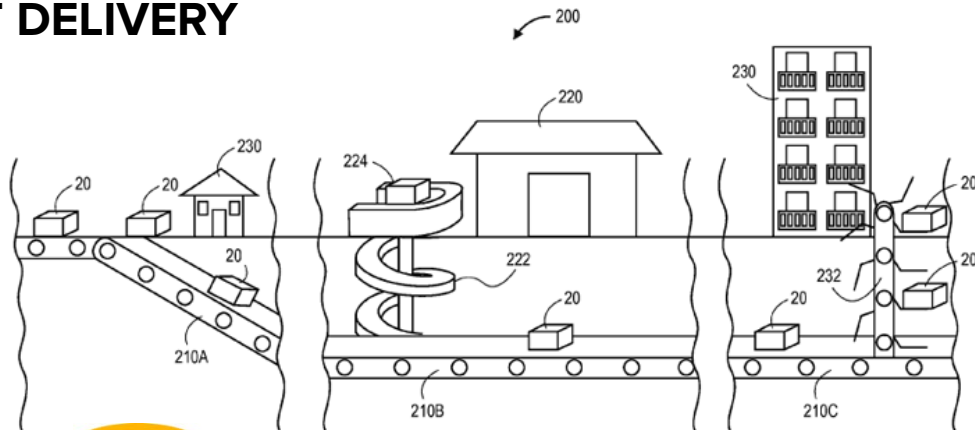


AMAZON STUDIOS, FASHION, AND STREAMING CONTENT

Amazon is investing heavily in video content. The first episode of The Grand Tour alone must have cost a pretty penny. Amazon has 108 original or owned content pieces for amazon video. And is in talks to launch streaming of the major sports leagues. It also has its own clothing lines.

AMAZON 4.0 = THE FINAL MILE

OWNING THE LAST MILE OF CONTENT DELIVERY



AMAZON 5.0+ = WHAT DON'T WE KNOW THAT BEZOS DOES?

THE NEXT LEVEL IS PROBABLY SOMETHING WE CAN'T EVEN THINK OF YET



Shop real world moments?



1ST, 2ND, AND 3RD MOVER ADVANTAGE



amazon.com

& Everyone Else





EARNINGS? HUH?

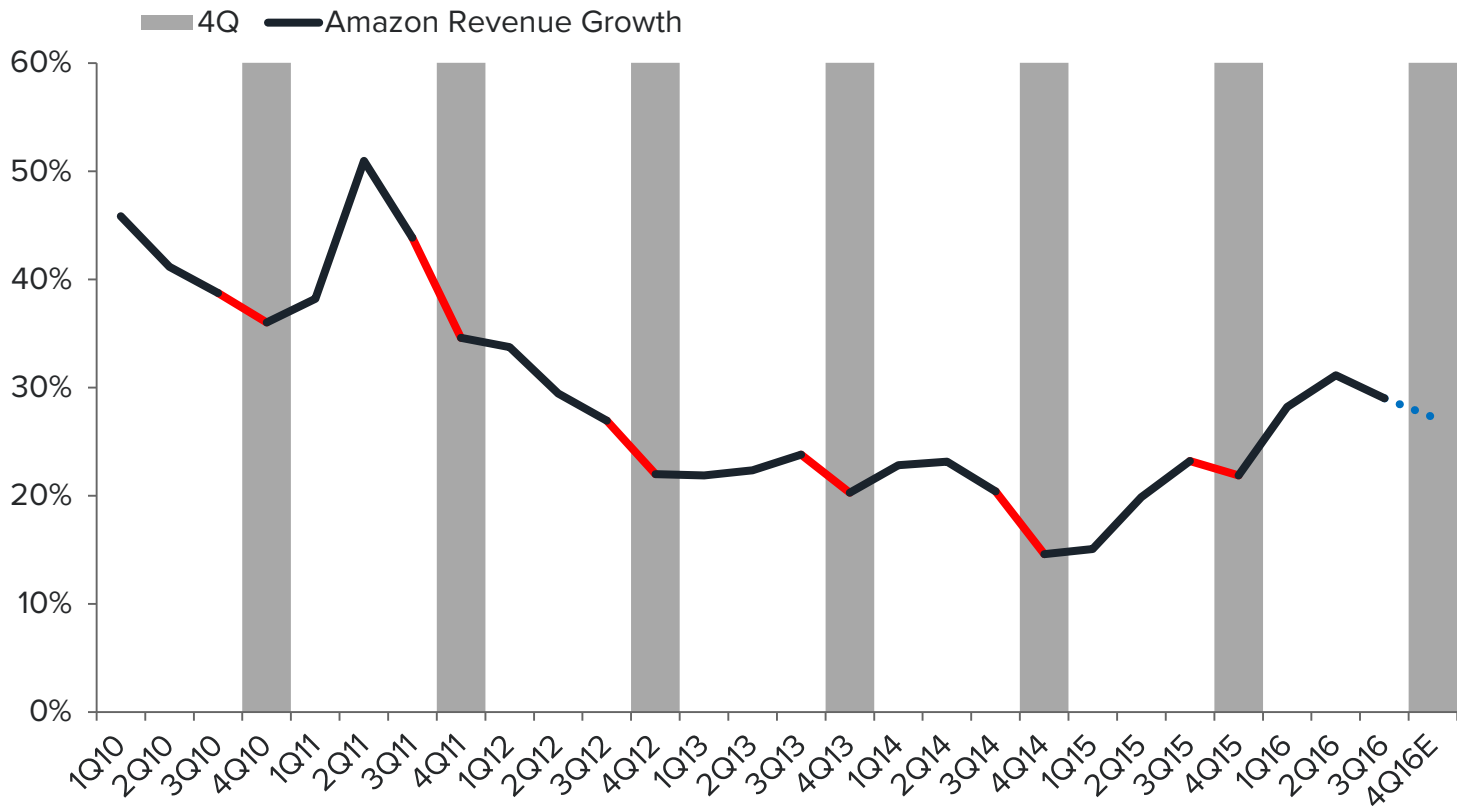
3-YEAR TRIPLE COMES AFTER 1-YEAR -40% HIT

WHY SO FOCUSED ON EPS WHEN THE STRUCTURAL CALL IS UNDERAPPRECIATED?

- Over a TAIL duration, people aren't even close to being bullish enough.
- The 10-year EPS DCF is great...until it's not. Been there, done that. It's not fun.
- No sense of urgency for AMZN to print some earnings so long as it grows Sales over 20%. Stock is fine then.
- BUT if revs slow, AMZN likely to get absolutely annihilated. It might be the cult stock of our lifetime, but business trajectory still applies.
- We'll be buyers when people wake up one day and THINK (whether true or not) that more \$/value being put in the box is not resulting in greater market share for a company that already garners 30% of every incremental US retail sale.
- Remember the stock went from \$405 to \$290 after the Drone/Amazon Air announcement.
- THAT created your 3-year triple.
- People say that they want to buy on pullback. But the factor leading to a pullback will put market share into question, and earnings will matter again (hence, they'll wait for another pullback). That's when we're interested.
- Remember – Border Tax temporarily erodes AMZN's competitive advantage.

THE 4Q EFFECT – LESS SHARE GAIN

AMZN REVENUE GROWTH IN 4Q



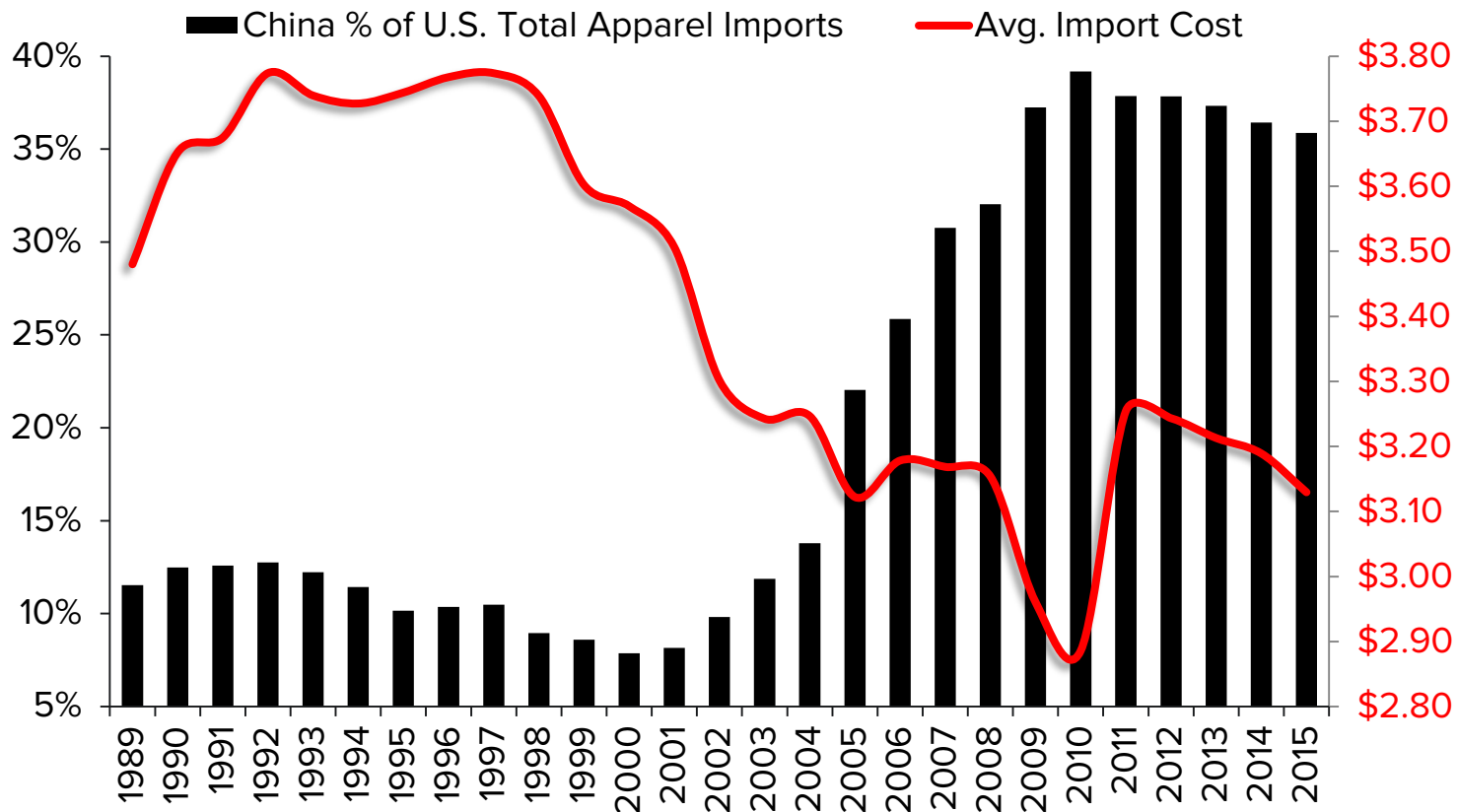
Since the recession, revenue growth has always slowed sequentially in 4Q.

Holiday promotion and competition seems to lead Amazon to take share at a lower rate in 4Q.

This should intensify if nothing else.

IS BEZOS LOOKING AT THE CONSUMPTION RISK?

CHINA % OF U.S. TOTAL APPAREL IMPORTS



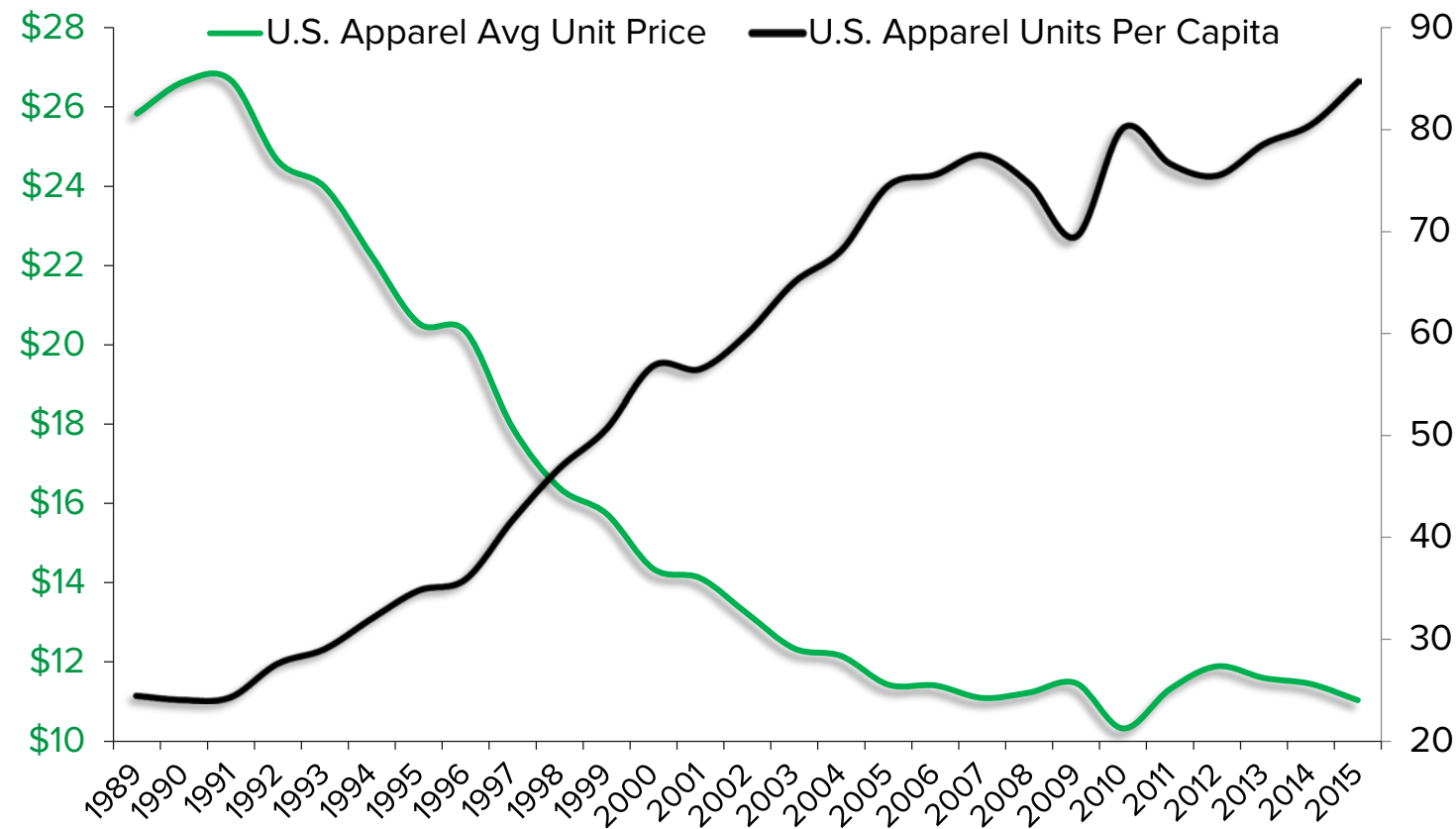
- January 1 2005 – apparel import quotas completely gone out after a decade of phasing.

- They were reinstated temporarily to prevent flooding – limited to 7.5% per year for t-shirts, cotton pants, and underwear (just before HBI went public). But by 2010 these temp safeguards were totally gone.

- In 2006, for example, imports of Chinese cotton pants surged 1,500% and cotton shirts were up 1,300%.

HERE'S THE TREND PEOPLE MISS

U.S. AVG. APPAREL UNIT PRICE VS UNITS PER CAPITA



OTEXA uses a standardized unit. (SME, or M2).

The number comes from qty of different types of garments, that are converted with standard conversion factors

<http://otexa.trade.gov/corr.htm>

For example 1 Dozen women's/girls knit shirts/blouses = 12.5 SME, or 1 shirt = ~1 SME.
1 Dress is about 3 SME, 1 pair of socks is about 0.2 SME.

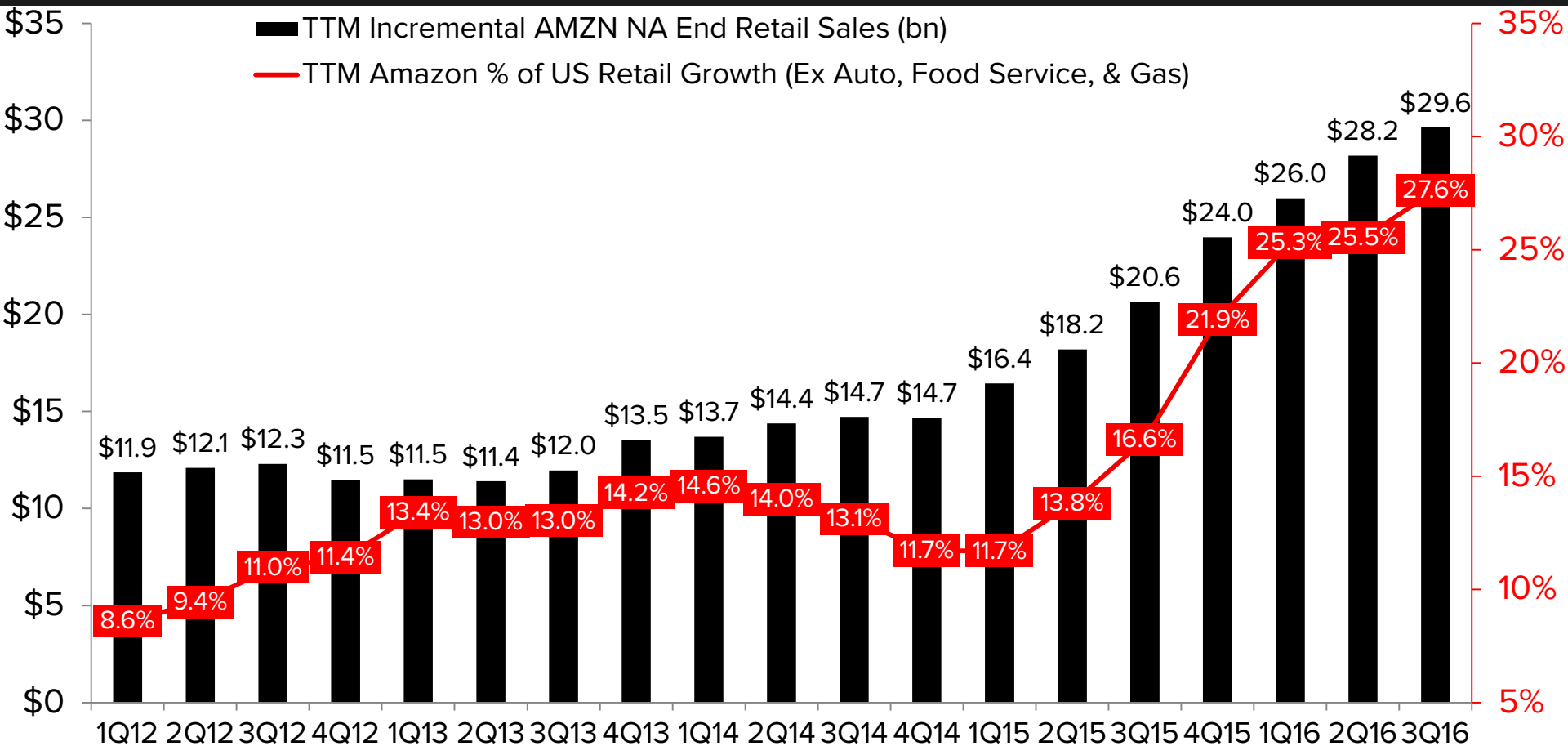
*Assuming imported units = Consumed units

Price = Garment PCE/Imported Units

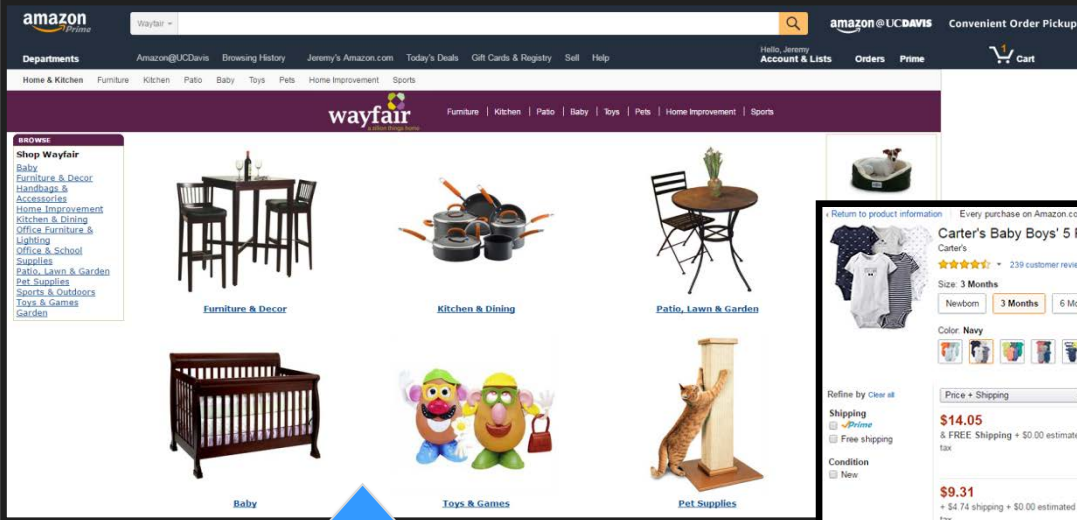


THE SCOPE = BIGGER THAN YOU THINK

AMAZON.COM - US RETAIL GROWTH CONTRIBUTION

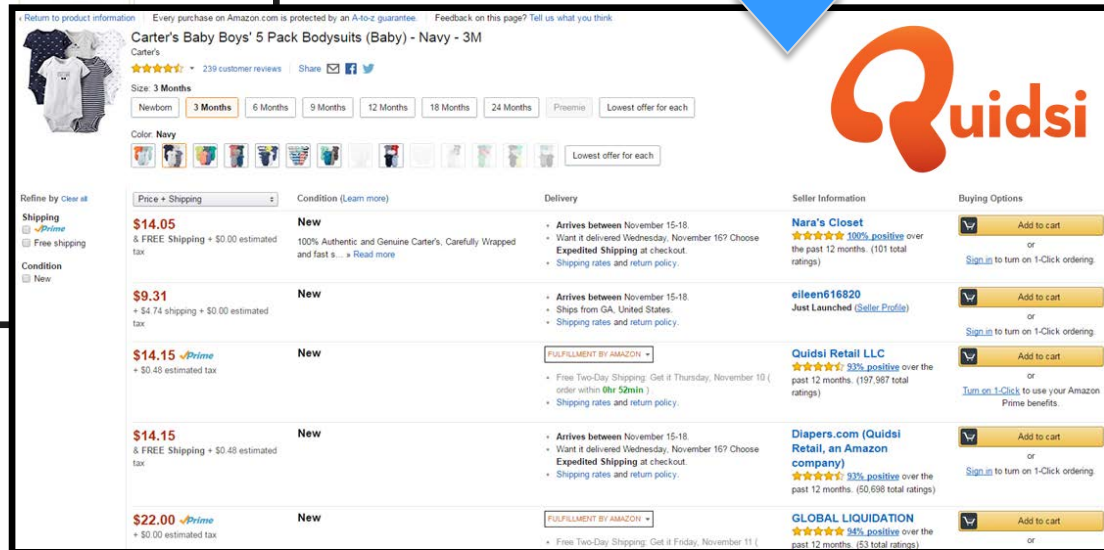


THE SCOPE OF AMAZON, IS NOT JUST AMAZON



Wayfair On Amazon

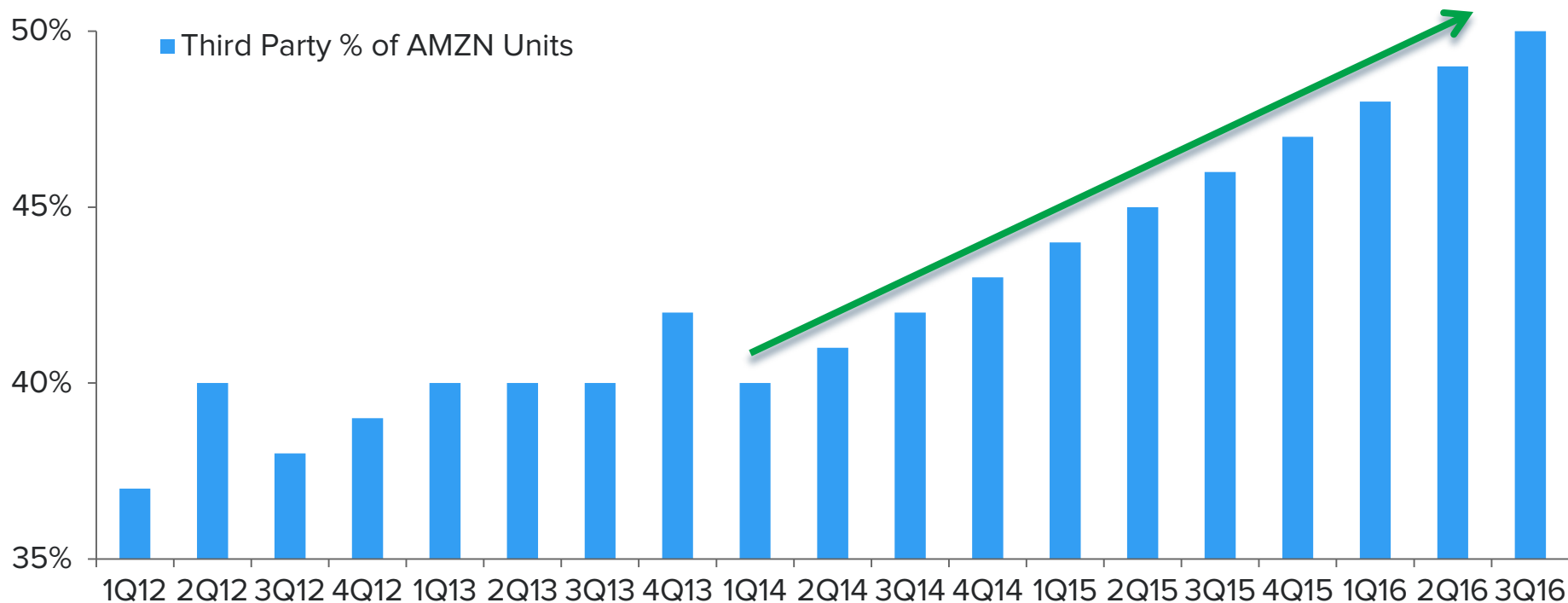
Carter's via Quidsi on Amazon



THIRD PARTY AMAZON SELLERS (50% OF UNITS)

Wayfair still has an Amazon store front. And though Carter's just announced a 'new' Amazon partnership, for years they have had product on Amazon through Quidsi (owned by AMZN). So your product is on being sold to AMZN, and sold to customers via Amazon.com, yet you somehow don't sell through Amazon?

IT'S ALREADY HEADING THERE...



AMAZON THIRD PARTY UNITS PUSHING 50% OF TOTAL. WHY NOT 80%?

Why use your own capital for own inventory when you can simply have others pay you to handle their inventory and use your platform with zero recourse to your terms.

ALL PRIME SERVICES

Everything included in Prime

Prime Shipping

FREE Two-Day Shipping on millions of items, FREE Same-Day Delivery in select areas & more.

Prime Photos

Free unlimited photo storage for you and five others. Plus, upgraded search helps you find photos fast.

NEW - Audible Channels

Unlimited listening to original audio series and playlists handcrafted for every interest.

Prime Music

Stream a growing selection of two million songs – included with your membership. Unlock more with Amazon Music Unlimited, plus get an exclusive discount.

Shopping with Alexa

Enjoy hands-free shopping with Alexa on millions of items on Amazon as an exclusive benefit of your Prime membership.

Amazon Family

20% off diapers subscriptions and 15% off eligible products from your baby registry, compliments of Amazon Family

Early Access to Deals

Prime members get 30-minute early access to Lightning Deals on Amazon.com.

Amazon Channels

Only for Prime: Sign up for a free trial for over 80 premium networks including HBO, SHOWTIME and STARZ. Cancel anytime.

Prime Pantry

Everyday sizes of popular household items delivered for a flat delivery fee.

Release-Date Delivery

FREE Release-Date Delivery on eligible pre-order items delivered on their release date to ZIP codes within the continental U.S.

Prime Video

Stream thousands of movies and TV shows at no additional cost on over 200 devices.

Amazon Prime Store Card

Earn 5% back every day with Amazon Prime Store Card.

NEW - Twitch Prime

Get free game content every month, ad-free Twitch viewing, Twitch Channel Subscription, plus loads more.

Amazon Elements for Prime

Shop Amazon Elements products, Amazon's own line of everyday essentials.

Amazon FreeTime Unlimited

Access to thousands of kid-friendly books, shows, games and more, for just \$2.99/month.

Prime Now

One and two-hour delivery on tens of thousands of items from Amazon and local stores.

NEW - Member Exclusive Discount on Video Games

Discounts apply to pre-orders and collector's editions for PC, PlayStation 4, Xbox One, Wii U, 3DS and more.

Amazon Dash for Prime

Only For Prime: Never run out of your favorite products with Amazon Dash Button.

Kindle First

Choose one Kindle book of the six Editors' Picks each month for free.

Washington Post Free Trial

Limited time: Enjoy unlimited access to the Washington Post with a six-month free trial.

NEW - Prime Reading

Enjoy unlimited reading on any device, with over a thousand books, magazines, books with Audible narration, comics, articles, Kindle Singles, and more.

Share Your Prime

Share select Prime benefits with another adult in your household.

\$62 EPS IN THE US ALONE (THEORETICALLY)

WHAT IF AMAZON WAS A 3RD PARTY PLATFORM & SERVICES?

	2016	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
US Retail Sales (\$bn)	\$4,832	\$4,977	\$5,126	\$5,280	\$5,438	\$5,602	\$5,770	\$5,943	\$6,121	\$6,305	\$6,494
Growth		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
US Online % of Retail Sales	8.1%	9.6%	11.4%	13.5%	16.0%	18.9%	22.3%	26.2%	30.6%	35.5%	40.9%
Online Penetration Change		150 bps	180 bps	210 bps	250 bps	290 bps	340 bps	390 bps	440 bps	490 bps	540 bps
US Online Retail Dollars	\$391	\$478	\$584	\$713	\$870	\$1,059	\$1,287	\$1,557	\$1,873	\$2,238	\$2,656
AMZN Share of Online Retail Est	33.0%	33.8%	34.5%	35.3%	36.0%	36.8%	37.5%	38.3%	39.0%	39.8%	40.5%
YY bps Change		75 bps	75 bps	75 bps	75 bps	75 bps	75 bps	75 bps	75 bps	75 bps	75 bps
US End Retail Via Amazon	\$129	\$161	\$202	\$251	\$313	\$389	\$482	\$596	\$730	\$890	\$1,076
AMZN % of US Retail	2.7%	3.2%	3.9%	4.8%	5.8%	6.9%	8.4%	10.0%	11.9%	14.1%	16.6%
AMZN Online Take Rate	20.0%	20.8%	21.5%	22.3%	23.0%	23.8%	24.5%	25.3%	26.0%	26.8%	27.5%
YY bps Change		75 bps	75 bps	75 bps	75 bps	75 bps	75 bps	75 bps	75 bps	75 bps	75 bps
AMZN US Retail Rev Assuming All 3rd Party	\$26	\$33	\$43	\$56	\$72	\$92	\$118	\$150	\$190	\$238	\$296
EBIT Margin	20.0%	19.9%	19.8%	19.6%	19.3%	19.0%	18.7%	18.3%	17.8%	17.3%	16.8%
YY bps Change		-10 bps	-15 bps	-20 bps	-25 bps	-30 bps	-35 bps	-40 bps	-45 bps	-50 bps	-55 bps
EBIT	\$5.2	\$6.7	\$8.6	\$10.9	\$13.9	\$17.6	\$22.0	\$27.4	\$33.8	\$41.2	\$49.5
Tax Rate	35.0%	34.5%	34.0%	33.5%	33.0%	32.5%	32.0%	31.5%	31.0%	30.5%	30.0%
Net Income	\$3.4	\$4.4	\$5.7	\$7.3	\$9.3	\$11.9	\$15.0	\$18.8	\$23.3	\$28.6	\$34.7
Shares (mm)	485	492	500	507	515	522	530	538	546	555	563
Growth		1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
AMZN US Retail Segment EPS	\$6.92	\$8.86	\$11.31	\$14.33	\$18.10	\$22.68	\$28.27	\$34.92	\$42.70	\$51.60	\$61.62

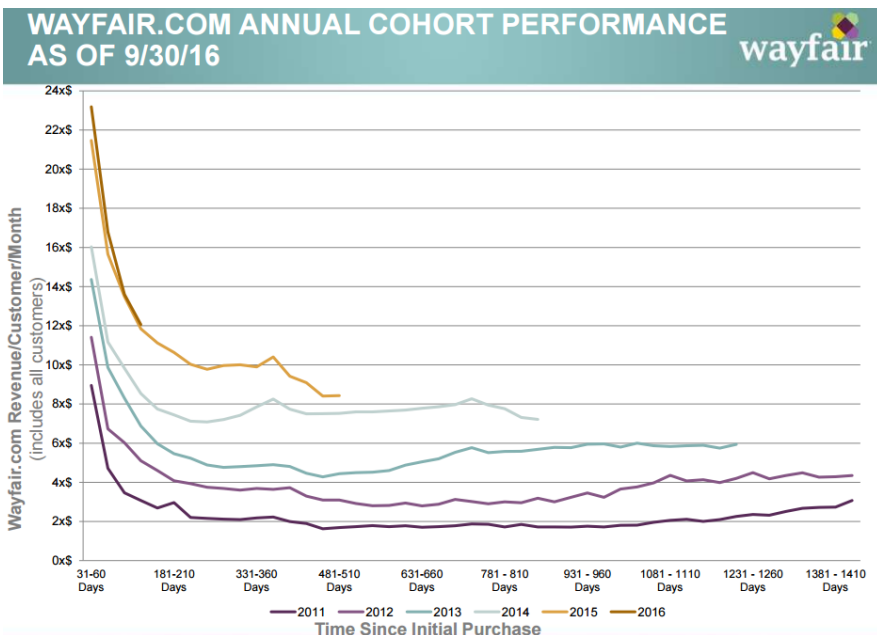
NOTE: This is only looking at US and the Retail operation. It does not include AWS or International Retail.

Ecommerce is accelerating off a higher base, and will likely continue to do so. It is innovation that enhances productivity which has higher adoption in the younger generations that have yet to reach peak spending.

Amazon will consume more of the value chain over time meaning a higher take rate.

Using EBAY as an EBIT margin comparable.

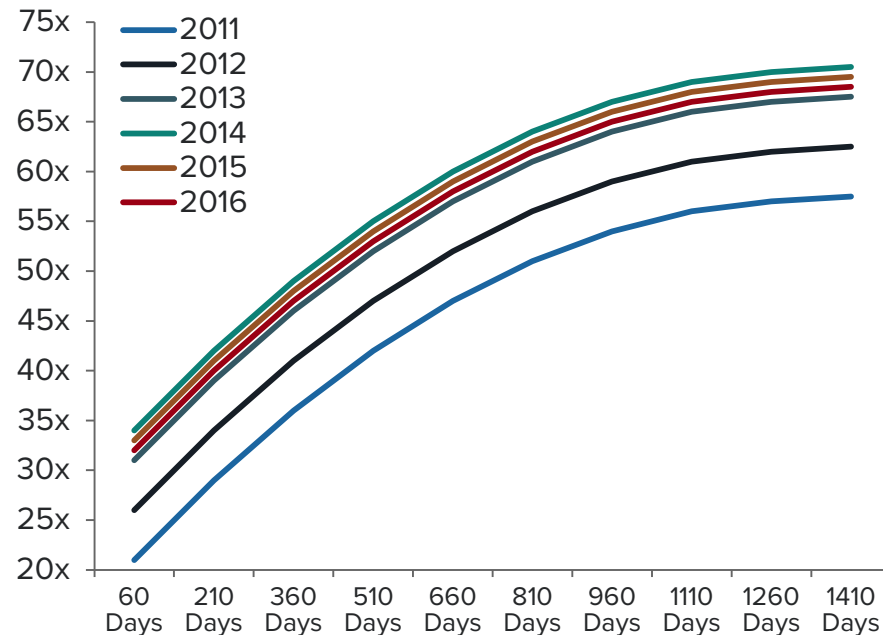
AMAZON COHORT SLIDE – THE INVERSE WAYFAIR



WAYFAIR COHORT ANALYSIS

One of the key charts Wayfair management uses to sell its story. Impressive improvement each year as each cohort spends more than the last.

This is likely in part driven by growing assortment, and by an improving economy.

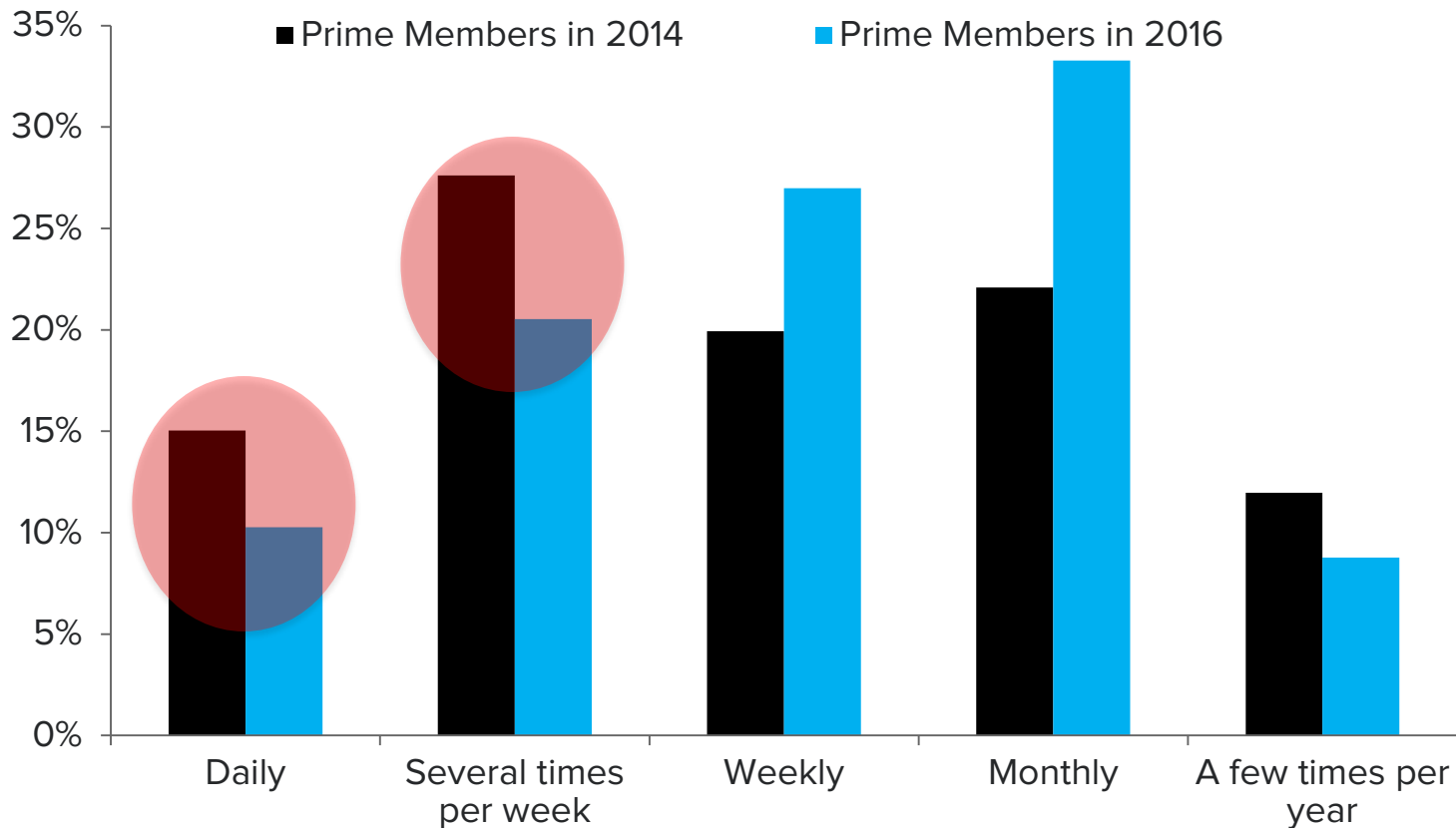


PRIME LOOKS MORE LIKE THIS

Amazon/Prime members most likely increase the amount and frequency of purchase over time. Each year until 2014 was likely spending more as a cohort. Spending curve of young consumers could make for different shapes in the future. Amazon is also growing assortment.

PRIME MEMBER SHOPPING FREQUENCY DOWN VS 2014

HOW OFTEN DO YOU SHOP AT AMAZON.COM?



There's been a trade-off in frequency as the shoppers have come from an increasingly lower quality demo.

HOW TO DRIVE VELOCITY?



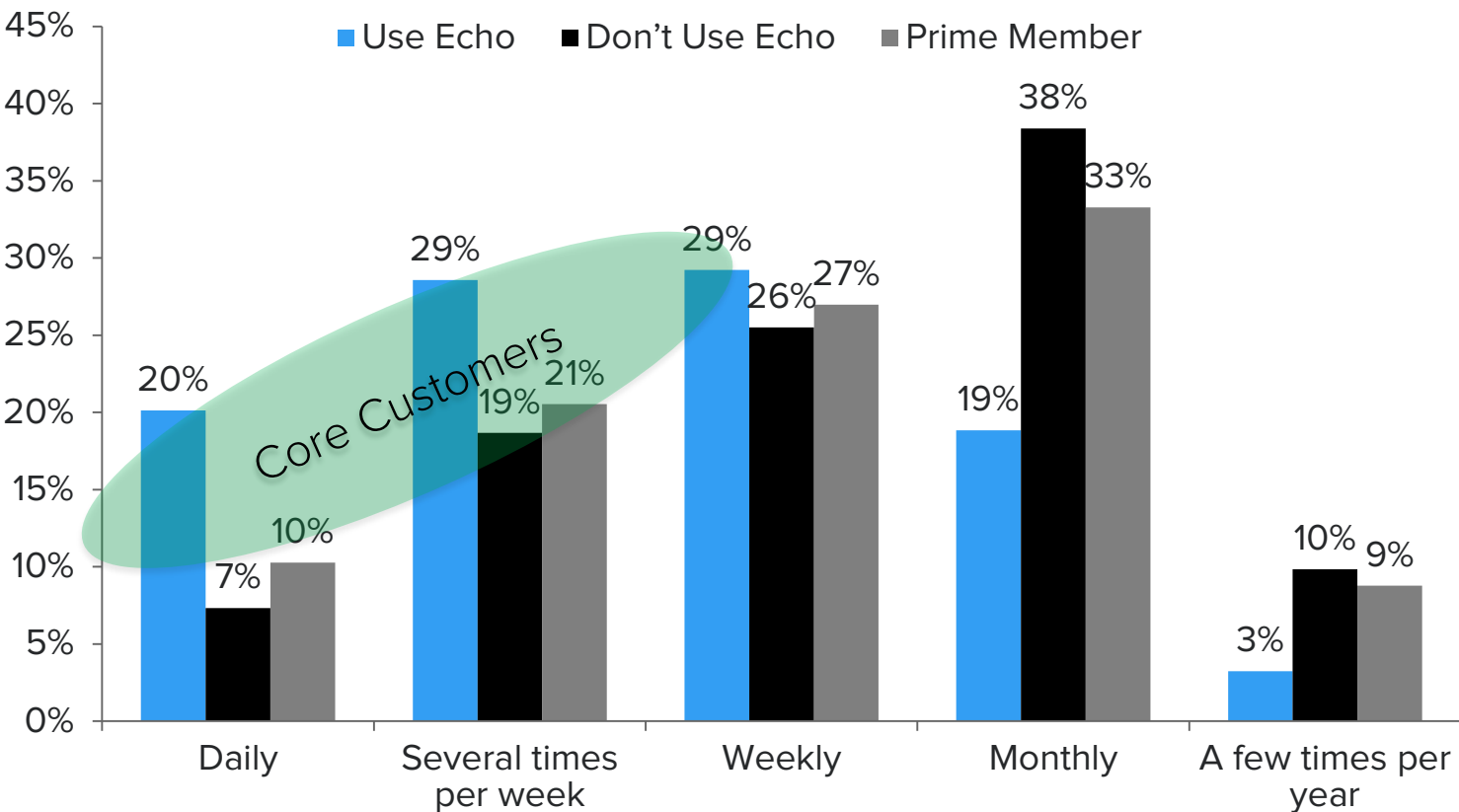
- 16% of respondents own an Echo/Dot
- 15% have used it for ordering.
- There were ZERO Non-Prime customers that own/use and Echo

ECHO IS SMALL BUT GROWING

Amazon announced that Echo unit sales were up 9x this holiday vs last year – but the unit sales are sub-profitable. Means to an end.

ECHO USERS SHOP OFTEN

SHOPPING FREQUENCY OF VARIOUS CUSTOMERS



Q: How often do you shop at Amazon.com?

Echo Customers will shop 2-3x more frequently than the average Prime Customer.

STAY CLASSY, SAN DIEGO

THE ECHO PICKS UP ORDERS REGARDLESS OF THE VOICE, WHETHER THAT IS A CHILD, OR A NEWS ANCHOR.

News anchor sets off Alexa devices around San Diego ordering unwanted dollhouses

January 5, 2017 4:54 PM by Carlos Correa



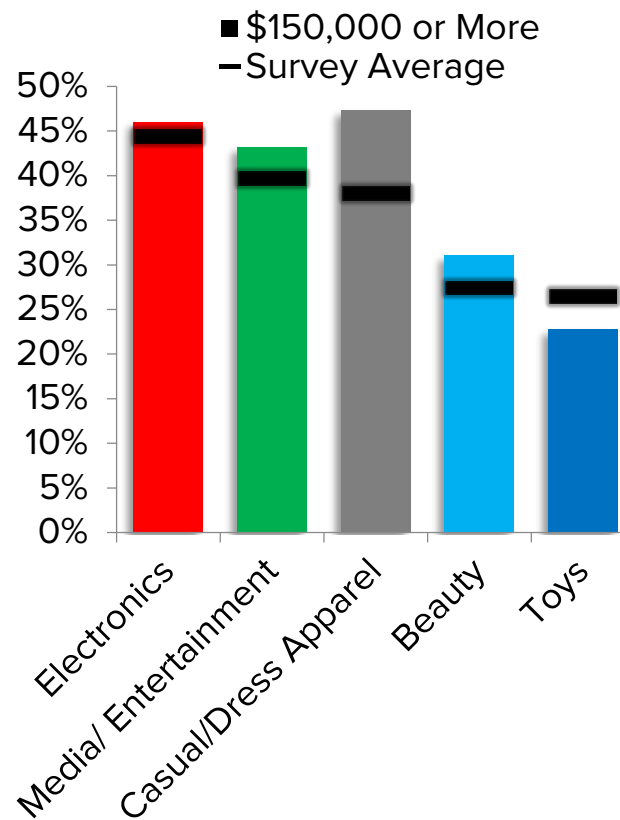
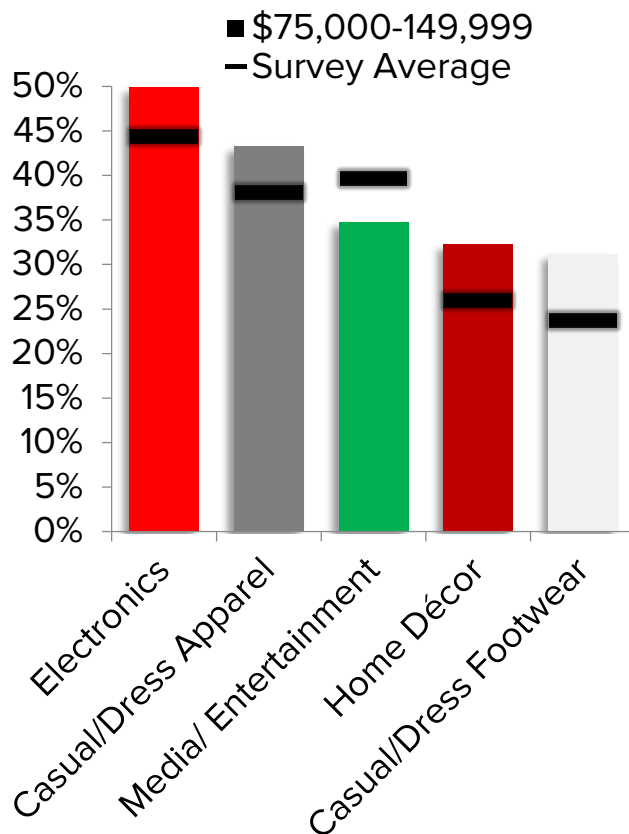
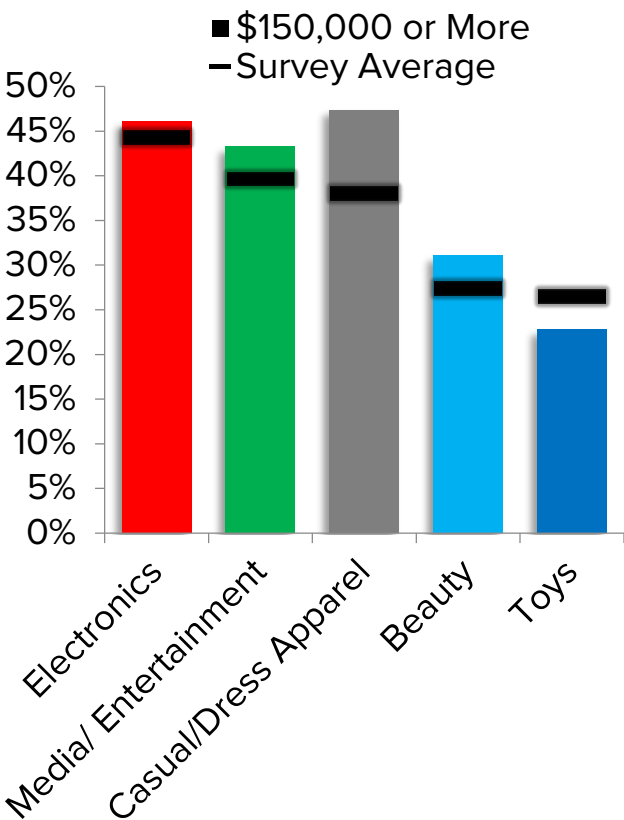
<http://www.cw6sandiego.com/news-anchor-sets-off-alexa-devices-around-san-diego-ordering-unwanted-dollhouses/>

There have been some entertaining stories recently of this happening.

Amazon is generally proactive and accommodating in resolving these issues for customers.

HIGH, MID, LOW CONSUMER - TOP AMAZON SPEND BUCKETS

IN THE PAST 12 MON, WHICH CATEGORIES HAVE YOU PURCHASED ON AMAZON.COM?



DASH BUTTONS - WHY DO THEY EXIST?



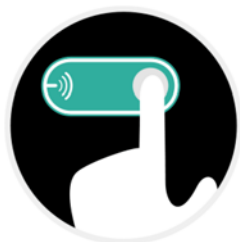
HOW IT WORKS

SET IT



Use Amazon App to pair Dash Button to your product

PRESS IT



Press the button when you're running low

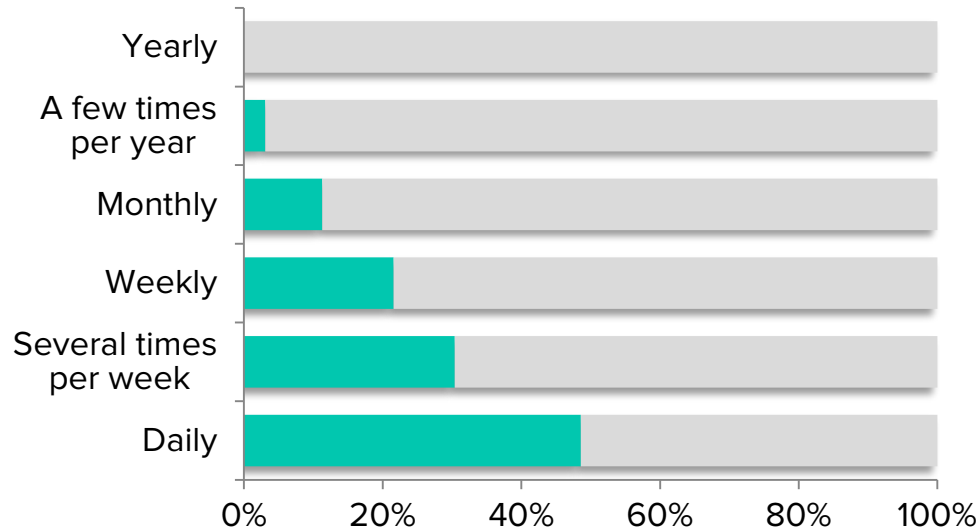
GET IT



Receive your product before you run out

Dash button use, by shopping frequency:

- Uses Dash Buttons to make purchases on Amazon
- DOES NOT use Dash Buttons to make purchases on Amazon



AMAZON DASH BUTTONS

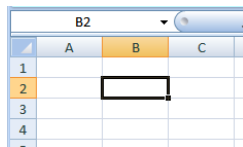
18% of respondents indicated they use Dash Buttons to make purchases on Amazon.com



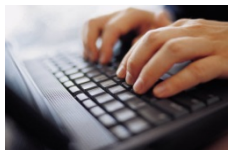
WHAT WE LEARNED ABOUT AMZN

HERE'S WHAT WE DID

1000 Surveys =



1 million+ data points



ECHO

KIDS

CREDIT CARDS

DASH BUTTONS

EDUCATION

GENDER

HOUSING



Sliced Up

FICO AGE FICO REGION
INCOME PRIME
FREQUENCY
CATEGORIES

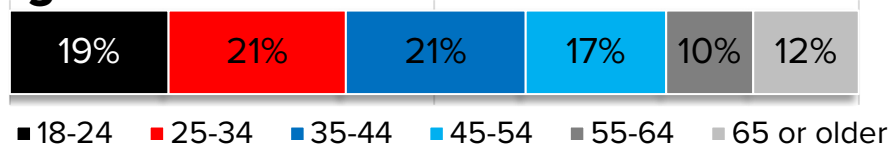


SURVEY METHODOLOGY

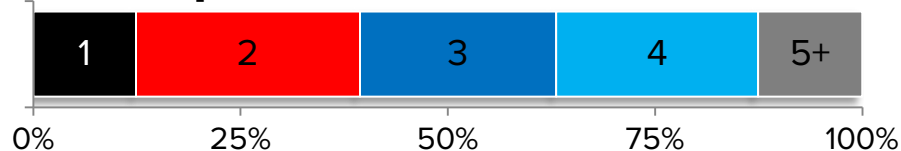
The main bias/variable to consider as it relates to Amazon conclusions is that all respondents use the internet, since it was an online survey.

PRIME MEMBER TODAY

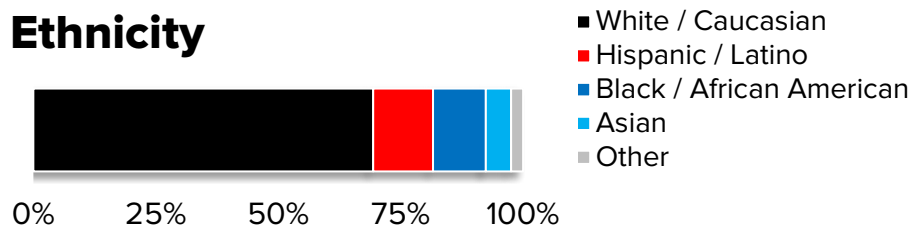
Age



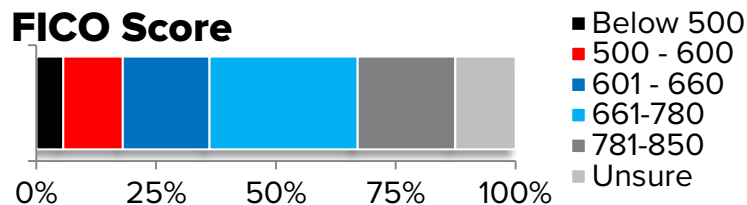
of People in Household



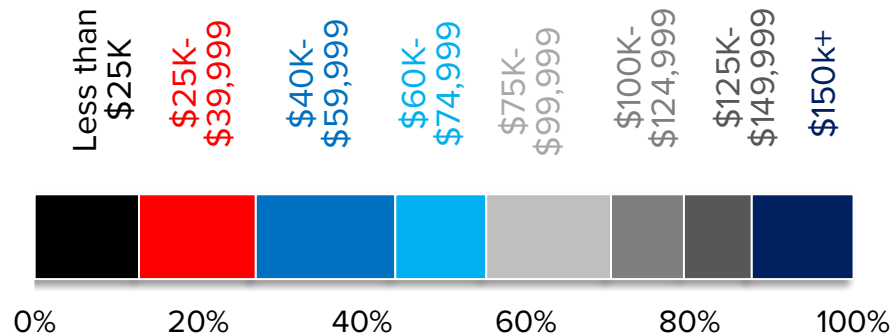
Ethnicity



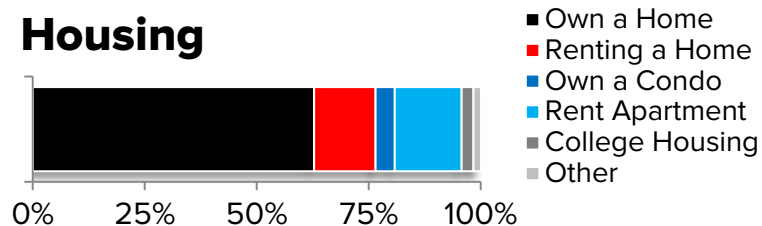
FICO Score



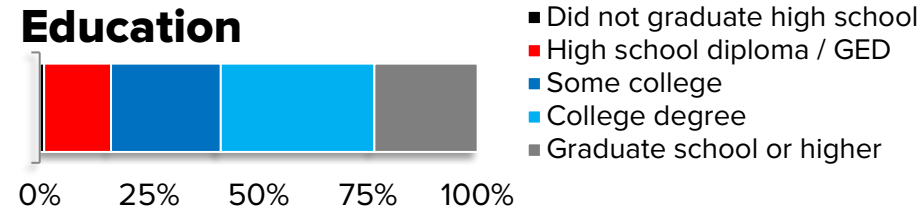
Household Income



Housing

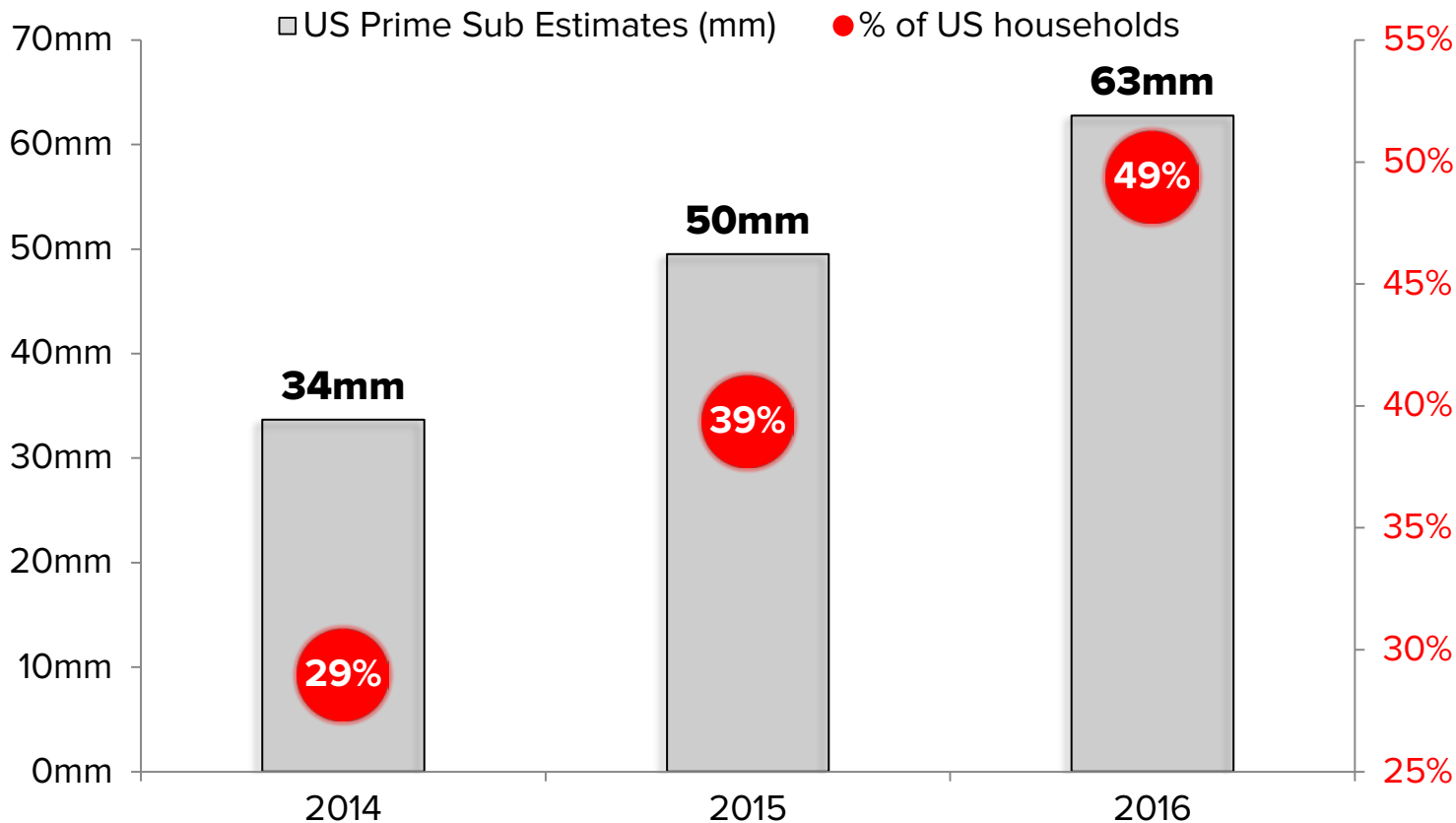


Education



OUR ESTIMATE OF NUMBER OF US PRIME MEMBERS

TOTAL U.S. PRIME USERS VS % OF TOTAL U.S. HOUSEHOLDS

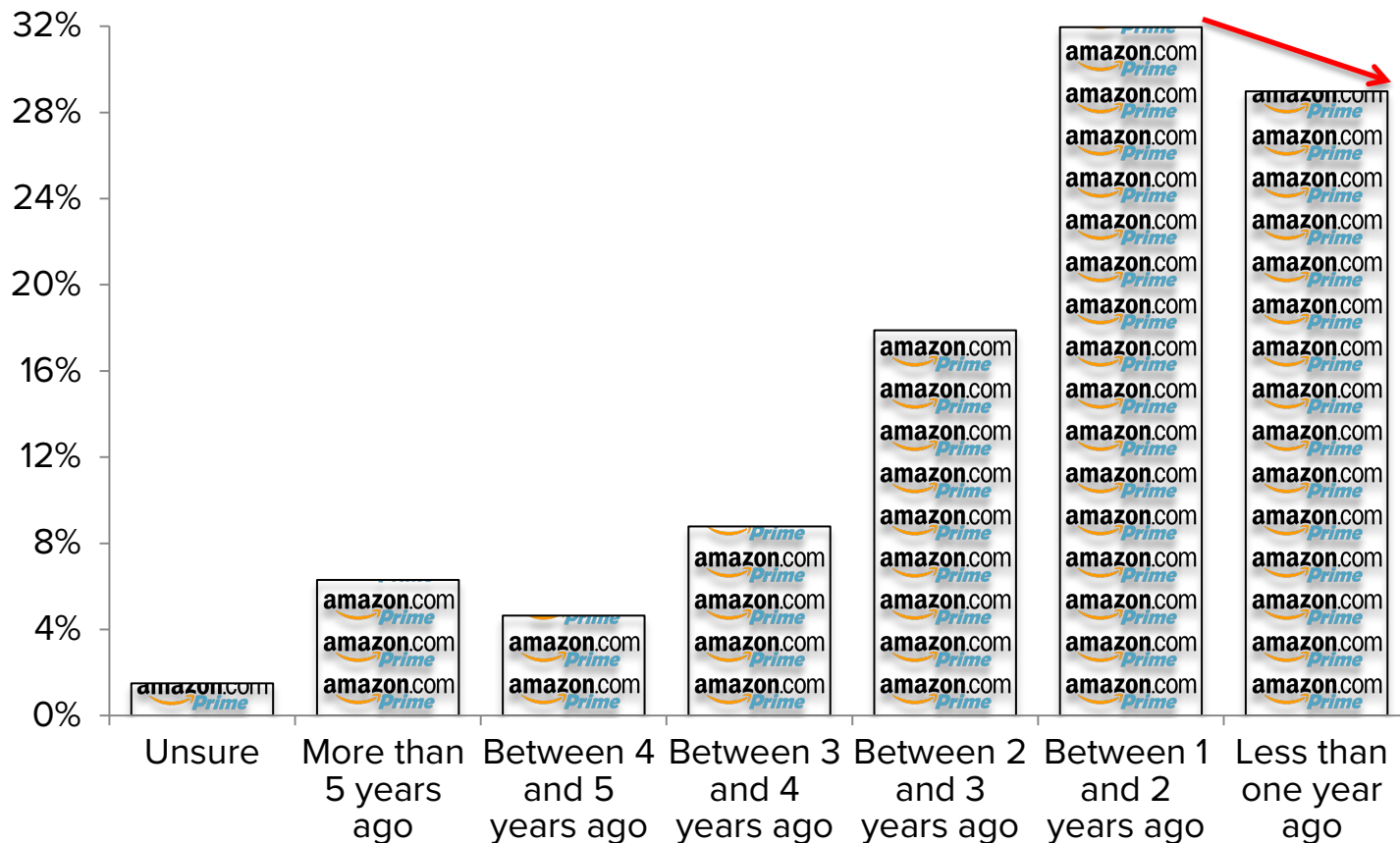


About 49% of US households currently have Prime.

We need more households.

LAW OF LARGE NUMBERS

HOW LONG AGO DID YOU SUBSCRIBE TO AMAZON PRIME?



But still – 13mm incremental users vs 2015.

That's 4.1% of the US population.

Or..

10.4% of households added in 1-year

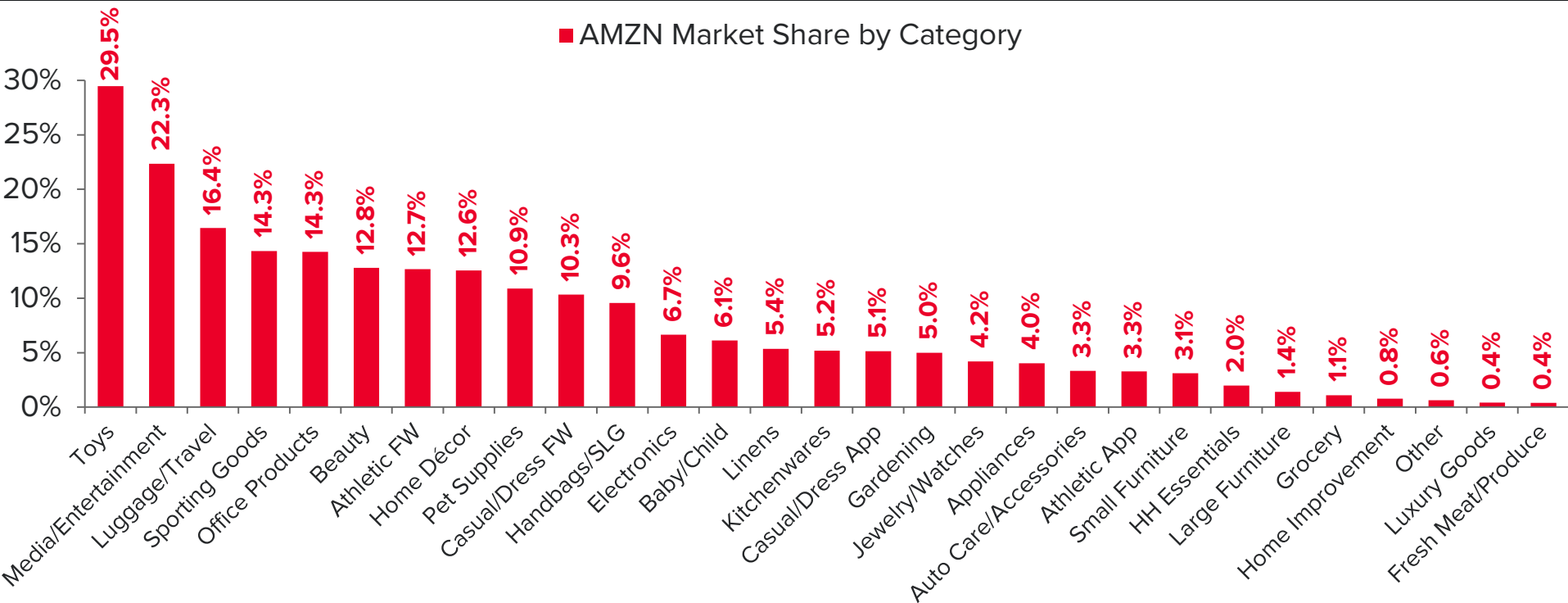
2016 US AMAZON CATEGORY BREAKDOWN



US AMAZON END RETAIL BY CATEGORY

You can actually make an argument that the segments on the right hand side of this chart have greater 'Amazon Impact'.

MARKET SHARE BY CATEGORY



AMAZON SHARE BY CATEGORY

Amazon makes up about 3.9% of US Retail (Ex Automobiles & Gas). It has 33% share of US Online Retail.



AMAZON CREDIT IS KEY

NEW 5% PRIME CREDIT CARD, REPLACING 3%



5% Back
at Amazon.com
with an eligible Prime
membership* [Learn more](#)

2% Back
at restaurants,
gas stations,
and drugstores*

1% Back
on all other
purchases*

**New
Credit Card**

get a **\$70 Amazon.com Gift Card** instantly upon approval for



**5% Back
every day**

**Access to
promotional financing**

**No
annual fee⁷**

**Store Card
(Still There,
Not New)**

Get a free **\$50 Amazon Gift Card**



3

3% Back
Earn 3% Back at Amazon.com.*



No annual credit card fee[†]

2

2% Back
Earn 2% Back at restaurants, gas stations and drugstores.*
1% Back
Earn 1% Back on all other purchases.*

**Former Card
And the Non-
Prime Card**

CREDIT CARD OFFERING FROM AMAZON

Amazon's may be introducing this card to help push up penetration on its own card to save on interchange fees to third parties. There is speculation that the trump administration will change interchange limits regulations pushing the fee rate up.

DANGEROUS 'CATCH UP'



3-HEADED REWARDS PROGRAM – WE WERE (VERY) EARLY



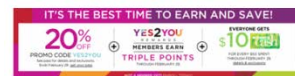
- Annual spend - \$0-\$600
- Benefits
 - 12 sales events/year
 - Advance Sales Notification



- Annual spend - \$601+
- Benefits
 - 12 sales event/year
 - 6 pick-a-day offers
- Additional discounts in specific departments



- Tender agnostic
- Benefits
 - 5% KSS rewards rebate
 - 8 offers/year, + 1 additional birthday offer

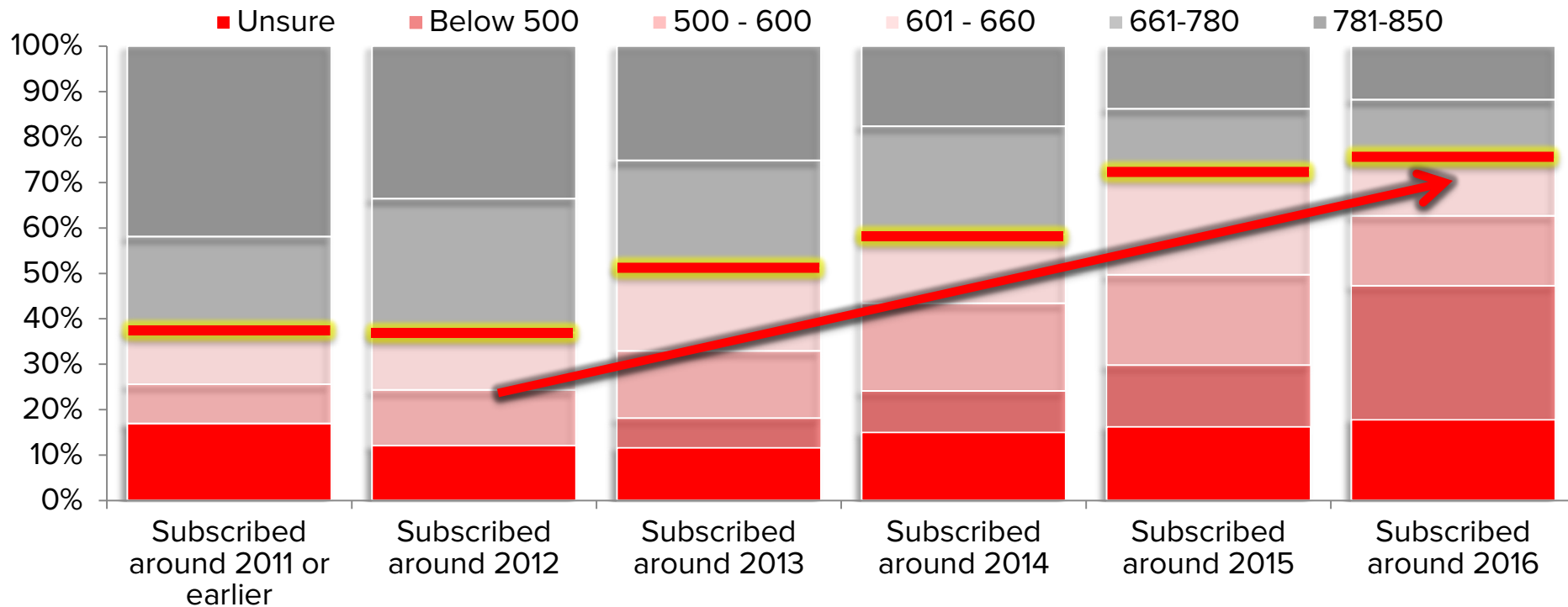


- Tender agnostic
- Bi-monthly earning and redemption periods
- Benefits
 - \$10 in Kohl's Cash for every \$50 spent
 - 10-15 day redemption window

DATA SOURCE: HEDGEYE RISK MANAGEMENT, COMPANY WEBSITE

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PRIME MOVING MORE INTO SUBPRIME

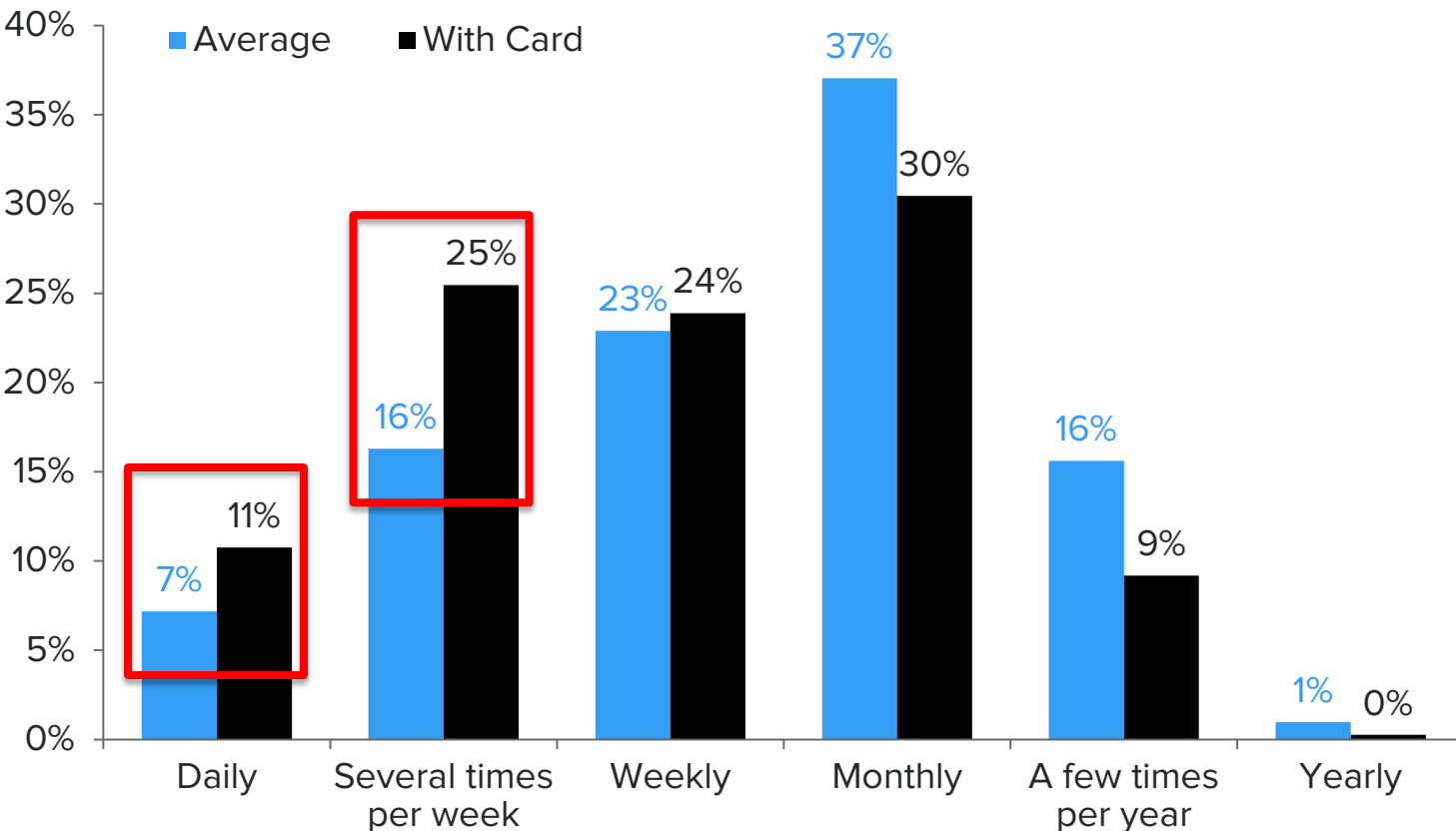


INCREMENTAL PRIME CUSTOMERS BY FICO SCORES

As Prime subscribers are added, Credit Scores get worse. Perhaps commonsensical, but this is a bigger trend than we thought we'd see. This is TGT bullish, and 'middle-America –retail' (WMT, TGT, KSS, JCP, BBBY, WSM, Rx front-end, Dollar Stores, etc...) bearish.

AMAZON CREDIT CARD

HOW OFTEN DO YOU SHOP AT AMAZON.COM?

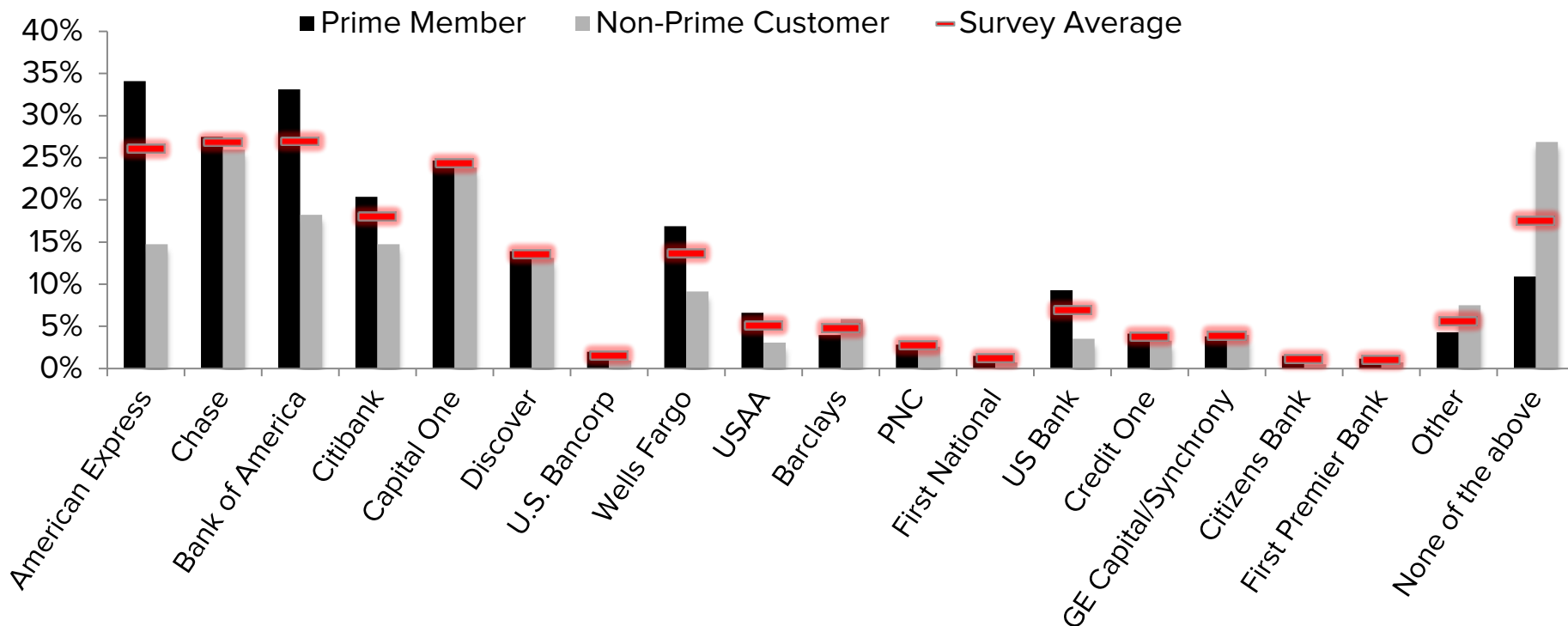


We estimate Amazon branded credit card penetration in sales to be **25-30%**.

(37% of respondent said they have an Amazon card)

Card holders shop much more frequently.

CREDIT CARD ISSUERS



DO YOU HAVE AN ACTIVE CREDIT CARD ACCOUNT OPEN WITH ANY OF THE FOLLOWING?

You'd think there's be more Amex overlap, no. Steiner was.

The 'non of the above' is the biggest callout. It means that they're using store card credit – i.e. KSS/COF or Red Card (TGT). That might be the only credit these customers can get (at 24% APR!).



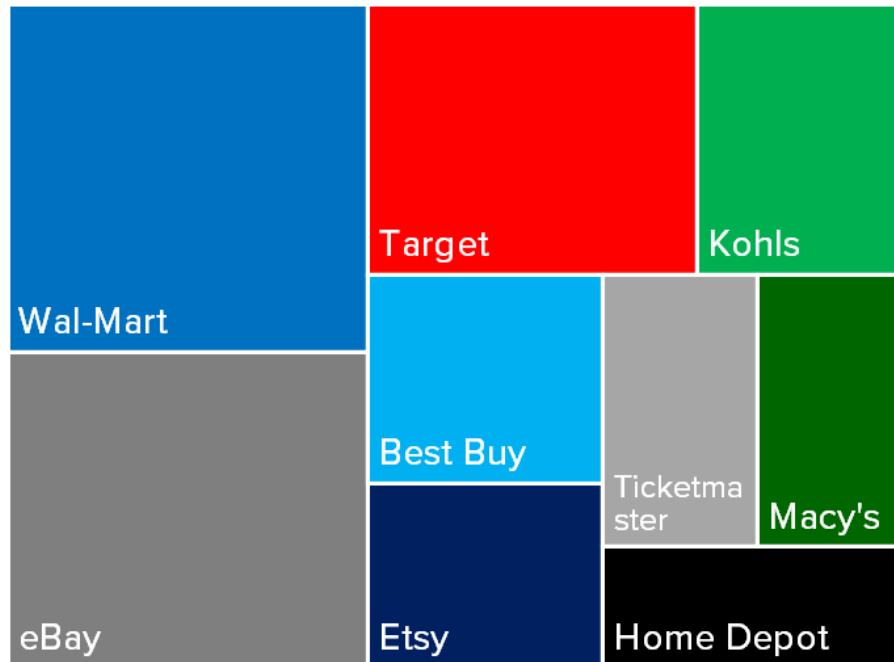
WHAT WE LEARNED - EVERYONE ELSE

AMAZONCOM US WEBSITE METRICS

AMAZON MONTHLY WEB TRAFFIC (TTM AVG.)

Unique Visitors	128,737,950
Visits	951,732,961
Pageviews	8,346,472,828
Unique Visitors Per Hour	173,035
Visits Per Hour	1,279,211
Transactions per Minute	2,100
Transactions per Unique Visitor	0.73
Transactions per Visit	0.10
Transactions per Pageview	0.01

GREATEST SHARED AUDIENCE W/ AMAZON



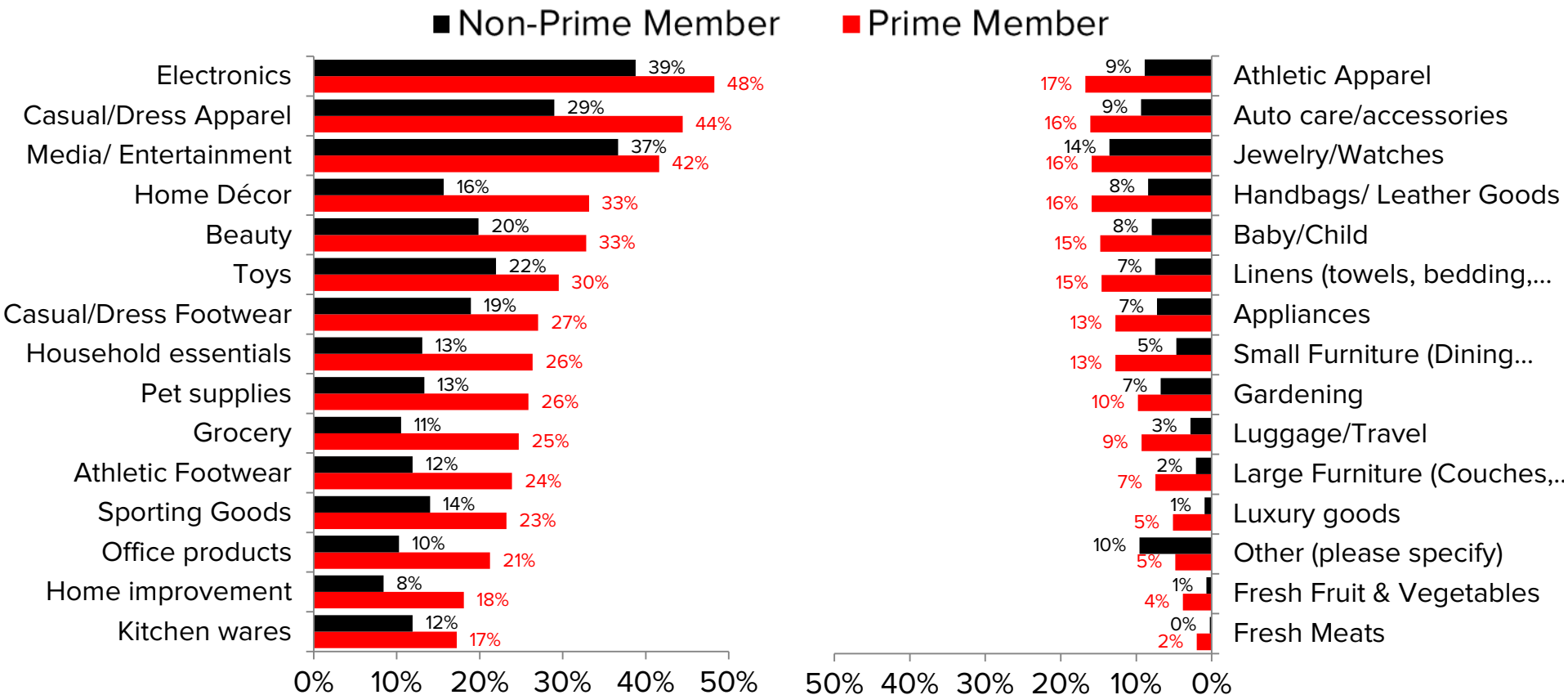
126,000 TRANSACTIONS PER HOUR. 9.8% CONVERSION RATE.

Beat that Target...

~1/3 of the US visits amazon.com at least once per month.

CATEGORIES CUSTOMERS SHOP

IN THE PAST 12 MON, WHICH CATEGORIES HAVE YOU PURCHASED ON AMAZON.COM?

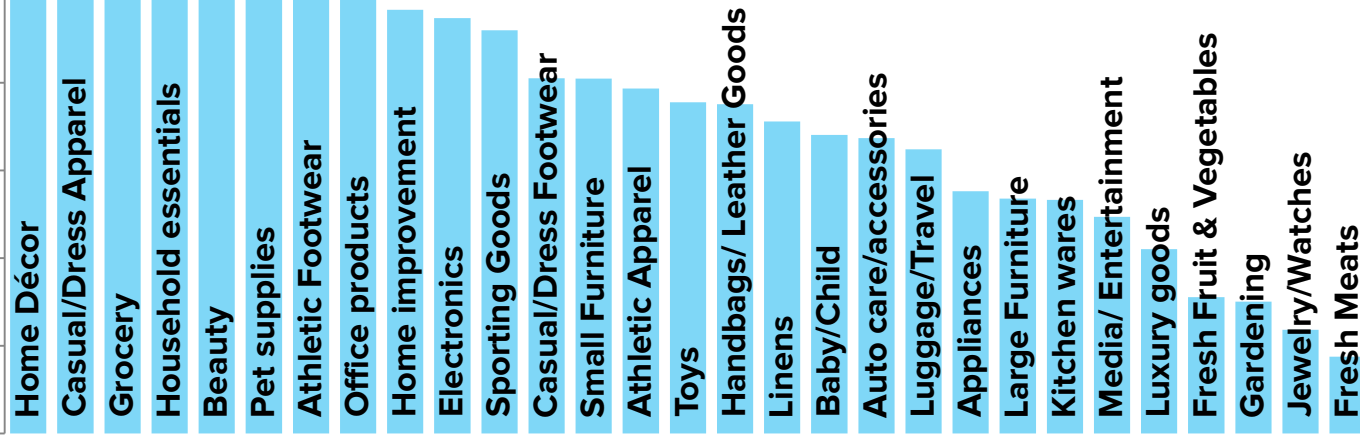


HERE'S WHAT PRIMERS ARE INCREMENTALLY BUYING

WHICH CATEGORIES HAVE YOU PURCHASED ON AMAZON.COM?

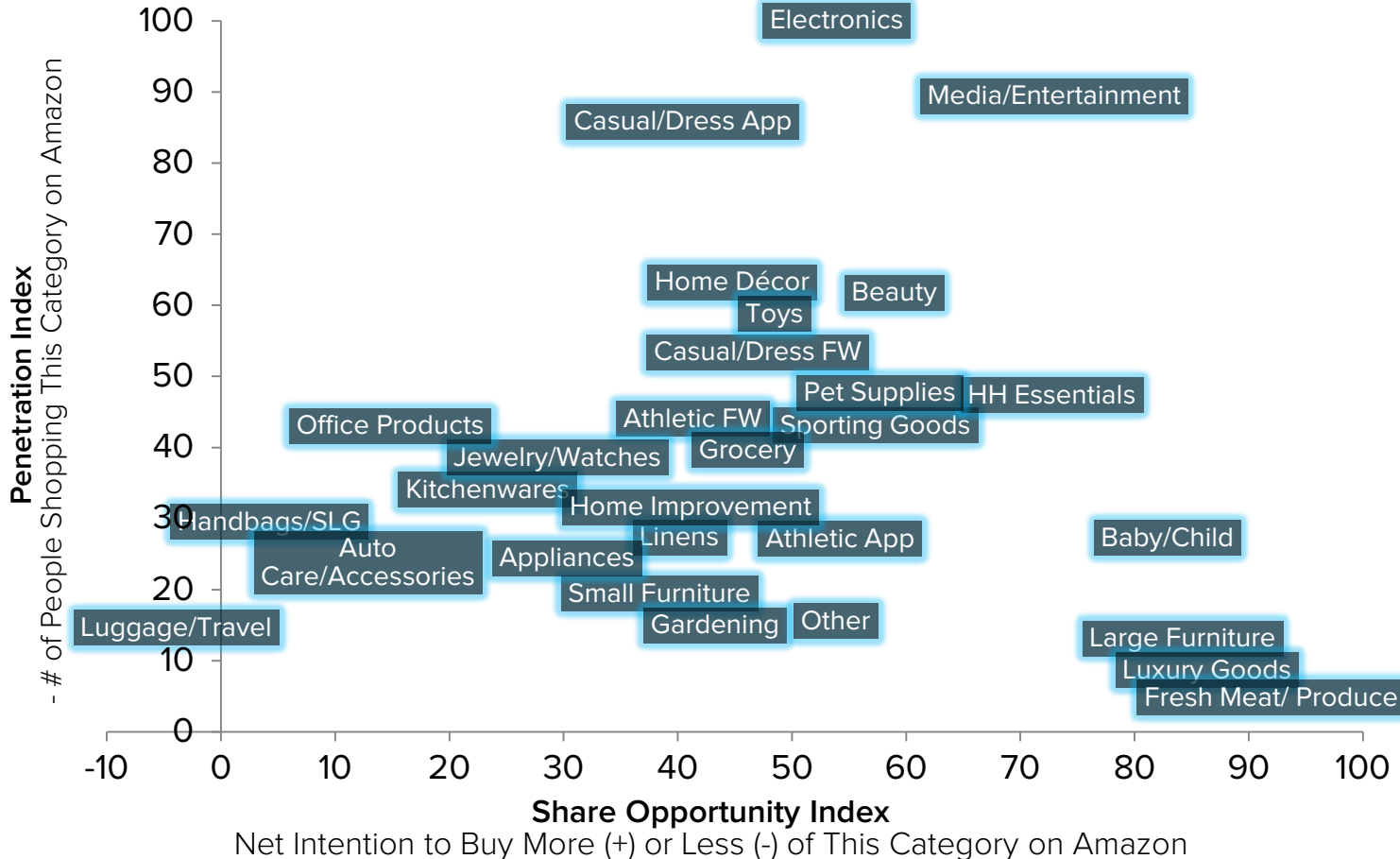
18% Prime Less Non-Prime Customer Spread

16%
14%
12%
10%
8%
6%
4%
2%
0%



Home décor (W, BBY...)
Apparel (ouch)
Grocery
Beauty (ULTA?)
Athletic footwear
(FL, FINL, etc..)
People are not buying
porterhouses on Prime -
- yet

DOMINATION VS OPPORTUNITY



This looks at category penetration among shoppers, and future intention of purchase.

The categories that most at risk from amazon Disruption in the near term are towards the right half.

As Amazon pushes harder into new categories, the lower categories have the most to lose.

NO CATEGORIES ARE UN-AMAZONABLE

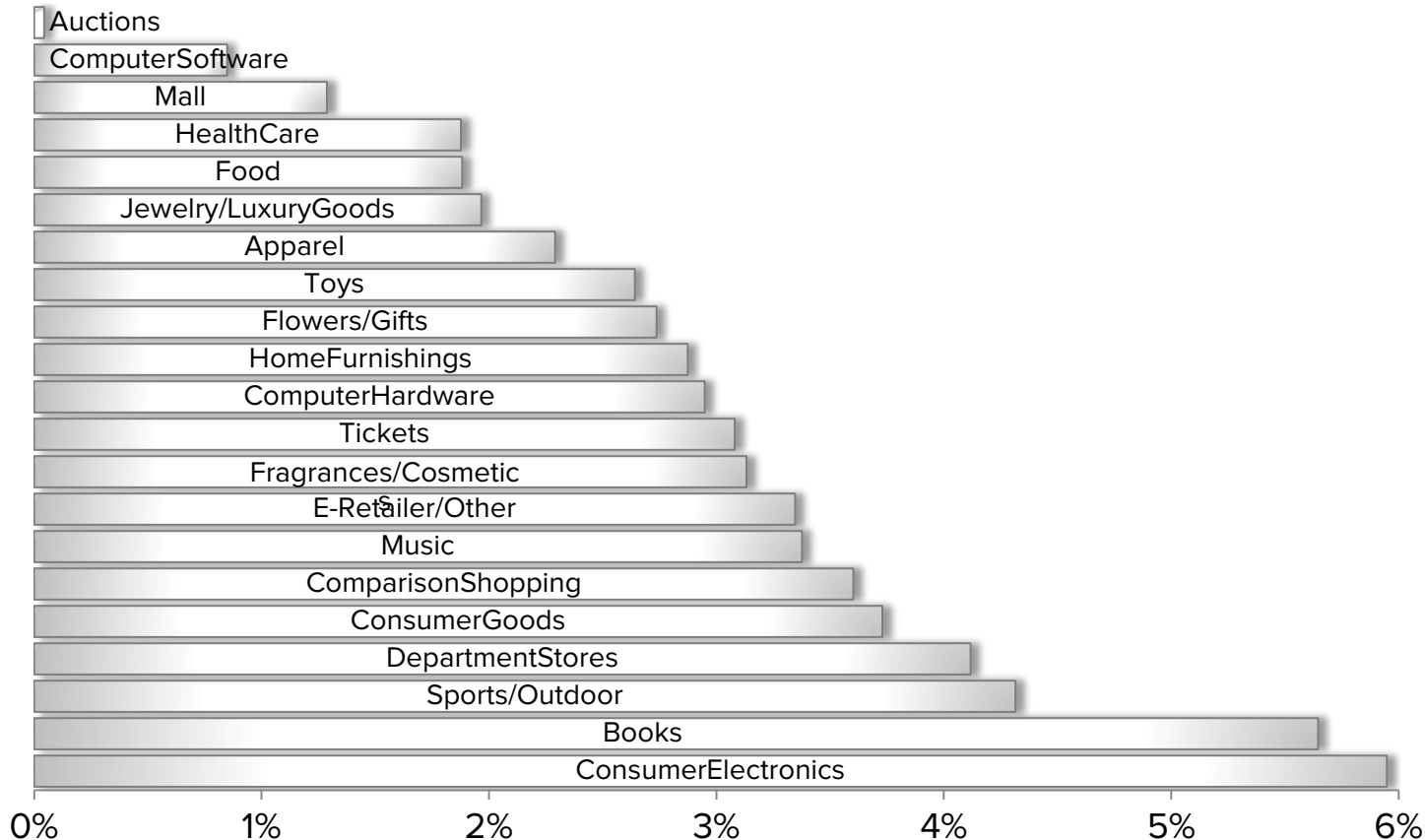


CATEGORIES INSULATED FROM AMAZON?

Fragrance, Cosmetics, Large Furniture, Eyeglasses (Warby Killer?), Luxury Goods, Gasoline, Animals/Pets?
5 years ago we would have thought produce was insulated from Amazon. Is anything truly safe?

WHO'S LOSING THE MOST TRAFFIC TO AMZN?

% OF TOTAL TRAFFIC LOST BY RETAIL SUBCATEGORY



DOMAIN SOURCE (WHO'S LOSING THE MOST TRAFFIC TO AMZN?)



% OF TRAFFIC LOST BY RETAIL SUBCATEGORY VS % TOTAL RETAIL VISITS

TRAFFIC 'LOST' TO AMAZON - EVERYONE

Uncommongoods.com	8.90%	Recreational Equipment Inc.	4.66%	1-800-Flowers.com, Inc.	1.57%	Underarmour.com	0.75%
Barnes & Noble	8.82%	Shoprite.com	4.66%	Asos Plc	1.57%	Rent-A-Center Inc.	0.73%
Zulily.com	8.79%	Blair.com	4.57%	Coach.com	1.56%	CVS	0.71%
Overstock.com Sites	7.58%	Dillards.com	4.53%	Gilt Groupe	1.51%	Retail Convergence, Inc.	0.69%
Adorama.com	7.47%	Nordstrom, Inc.	4.52%	Gunbroker.com	1.48%	Spencer Gifts, LLC.	0.65%
Frys.com	7.36%	Nextag.com Sites	4.35%	Fingerhut.com	1.47%	Meijer.com	0.61%
Shoebuy Sites	7.18%	Partsgeek.com	4.34%	Hhgregg.com	1.44%	Bradfordexchange.com	0.59%
Bed Bath & Beyond Inc.	7.04%	Duluthtrading.com	4.23%	Limitedbrands	1.36%	The Kroger Co.	0.58%
Fragrancenet.com	6.96%	Hallmark	4.21%	Walgreen Co.	1.29%	Sleepnumber.com	0.48%
Dickssportinggoods.com	6.45%	The Bon-Ton Stores, Inc.	4.19%	Shopathome.com	1.20%	Yankeecandle.com	0.47%
Lululemon.com	6.20%	Michaelkors.com	4.17%	Lands End	1.19%	Dollargeneral.com	0.45%
Northerntool.com	6.07%	Brown Shoe company	4.11%	Hsn.com	1.19%	Gunsamerica.com	0.35%
Thredup.com	5.97%	Costco Wholesale Corporation	4.08%	Gamestop Media	1.15%	Ftd.com	0.33%
Offers.com	5.88%	Hammacher.com	3.89%	Hautelook.com	1.15%	Avon Products Inc.	0.32%
Academy.com	5.76%	Rue21.com	3.83%	Charlotterusse.com	1.11%	Adoreme.com	0.31%
Ebay	5.59%	Staples.com Sites	3.80%	Levi Strauss & Co.	1.09%	Grasscity.com	0.29%
Wish.com	5.46%	Jones Apparel Group, Inc.	3.75%	Partycity.com	1.03%	Magazines.com	0.16%
Orientaltrading.com	5.29%	Ulta.com	3.65%	Abercrombie & Fitch Co.	0.92%	Hudl.com	0.11%
The Home Depot, Inc.	5.20%	Rakuten Inc	3.62%	Childrensplace.com	0.88%	Wishpond.com	0.08%
Best Buy Sites	4.92%	L.L. Bean, Inc.	3.58%	Nyandcompany.com	0.87%	Shoedazzle.com	0.06%
Touchofmodern.com	4.81%	Toys R Us Sites	3.52%	Lenovo.com	0.85%	Justfab.com	0.03%
Wal-Mart	4.70%	Worldmarket.com	3.51%	Pacsun.com	0.83%		
Acehardware.com	4.67%	Office Depot	3.50%	Rite Aid Corp.	0.82%		
		Kohls Corporation	3.44%				

RETAIL TOP 50 / BOTTOM 50 % OF TOTAL TRAFFIC LOST TO AMAZON SITES

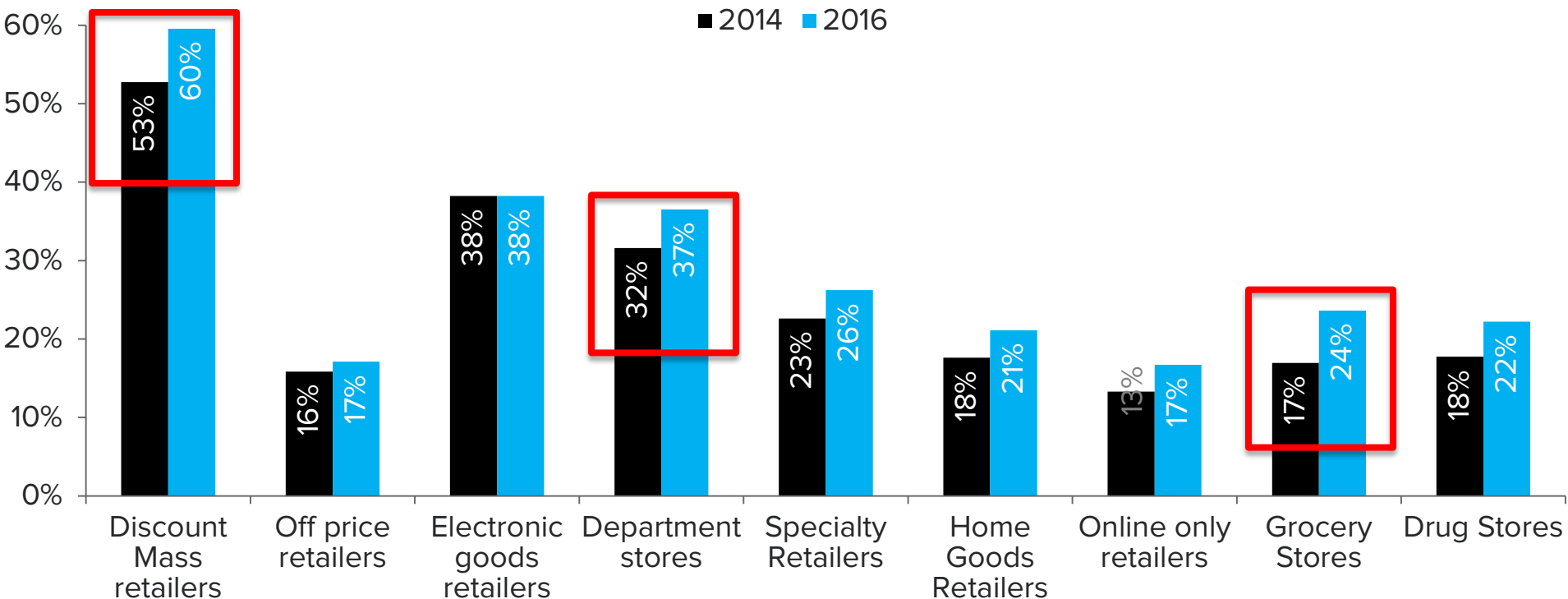
Many of these sites are unknown to the most of us – and it'll stay that way.

TRAFFIC 'LOST' TO AMAZON - CORE

Barnes & Noble	BKS	8.8%	Etsy.com	ETSY	3.2%	Jcrew.com	J. Crew	1.7%
Overstock.com Sites	OSTK	7.6%	Belk.com	Belk	3.0%	Dollartree.com	DLTR	1.7%
Bed Bath & Beyond Inc.	BBBY	7.0%	Ikea	IKEA	3.0%	Gap, Inc.	GPS	1.6%
Dickssportinggoods.com	DKS	6.5%	Target Corporation	TGT	2.9%	Michaels.com	MIK	1.6%
Lululemon.com	LULU	6.2%	Adidas Group	AdiBok	2.8%	Zale Corporation	SIG	1.6%
Ebay	EBAY	5.6%	Ralph Lauren Media Llc	RL	2.7%	1-800-Flowers.com, Inc.	FLWS	1.6%
The Home Depot, Inc.	HD	5.2%	Jcpenny Sites	JCP	2.7%	Asos Plc	ASOS	1.6%
Best Buy Sites	BBY	4.9%	Cabelas Inc.	CAB	2.6%	Coach.com	COH	1.6%
Wal-Mart	WMT	4.7%	Zumiez.com	ZUMZ	2.6%	Limitedbrands	LB	1.4%
Dillards.com	DDS	4.5%	Tractorsupply.com	TSCO	2.5%	Walgreen Co.	WAG	1.3%
Nordstrom, Inc.	JWN	4.5%	The Finish Line, Inc.	FINL	2.4%	Lands End	LE	1.2%
The Bon-Ton Stores, Inc.	BONT	4.2%	Saks Incorporated	Saks	2.4%	Hsn.com	HSN	1.2%
Michaelkors.com	MIK	4.2%	Williams-Sonoma, Inc.	WSM	2.2%	Gamestop Media	GME	1.2%
Costco Wholesale Corporation	COST	4.1%	Pier 1 Imports, Inc.	PIR	2.1%	Hautelook.com	JWN	1.1%
Staples.com Sites	SPLS	3.8%	Hottopic.com	HOT	2.1%	Partycity.com	PRTY	1.0%
Ulta.com	ULTA	3.6%	The Dress Barn, Inc.	ASNA	2.1%	Abercrombie & Fitch Co.	ANF	0.9%
L.L. Bean, Inc.	LI Bean	3.6%	Nike	NKE	2.0%	Childrensplace.com	PLCE	0.9%
Toys R Us Sites	TOY	3.5%	Foot Locker Sites	FL	2.0%	Pacsun.com	PSUN	0.8%
Office Depot	ODP	3.5%	Autozone, Inc.	AZO	2.0%	Rite Aid Corp.	RAD	0.8%
Kohls Corporation	KSS	3.4%	Kay Jewelers	SIG	1.9%	Underarmour.com	UA	0.8%
Urban Outfitters, Inc.	URBN	3.4%	Neimanmarcus.com	NMG	1.8%	Rent-A-Center Inc.	RCII	0.7%
Alibaba.com Corporation	BABA	3.4%	Footlocker.com	FL	1.7%	CVS	CVS	0.7%
Guitar Center, Inc.	GTRC	3.4%	Samsung Group	WMT	1.7%	Dollargeneral.com	DG	0.4%
Lowes.com	LOW	3.3%	Burlington Coat Factory	BURL	1.7%	Ftd.com	FTD	0.3%

% OF TOTAL TRAFFIC DIRECTED TO AMAZON

WHO'S LOSING THE MOST SHARE, FASTER?

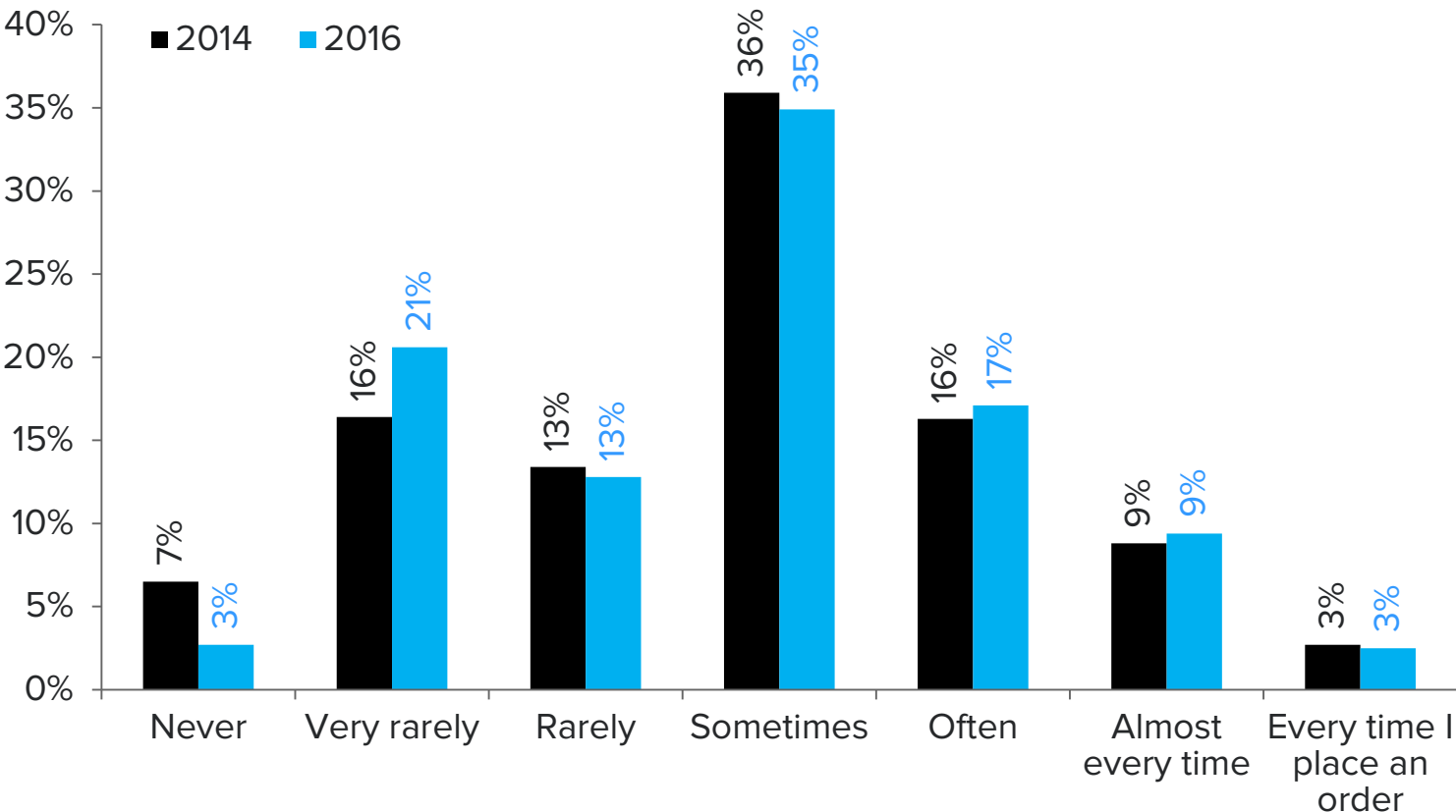


SHARE LOSERS – 2014 VS 2016

Survey Question: Thinking specifically about the items that you buy on Amazon.com, at which store(s) did you previously purchase those items?

FREE SHIPPING INTERESTINGLY HASN'T CHANGED MUCH, YET

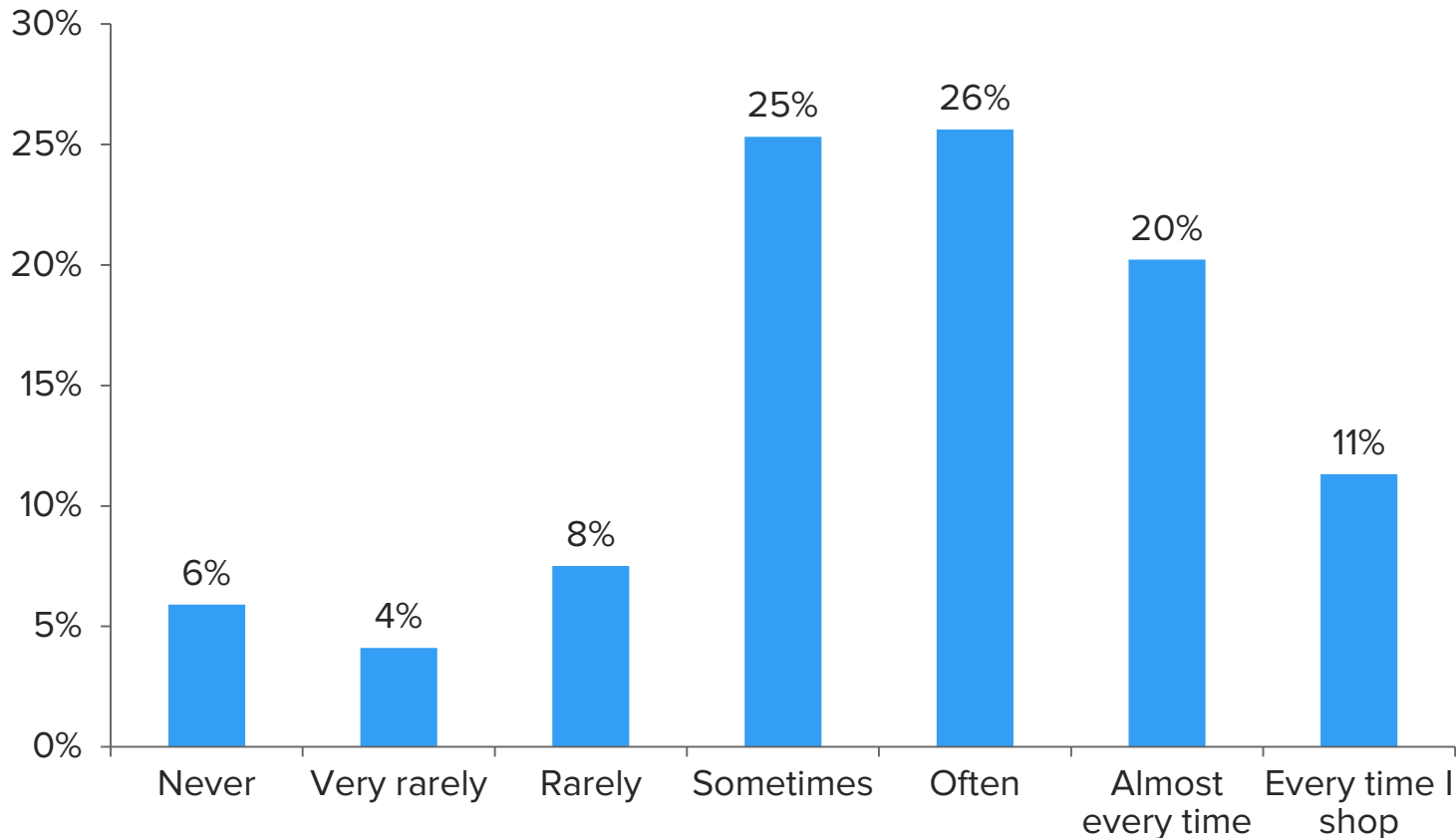
WHEN SHOPPING ONLINE, HOW OFTEN DO YOU PAY FOR SHIPPING?



The frequency perception for paying for shipping was eerily similar to our 2014 survey.

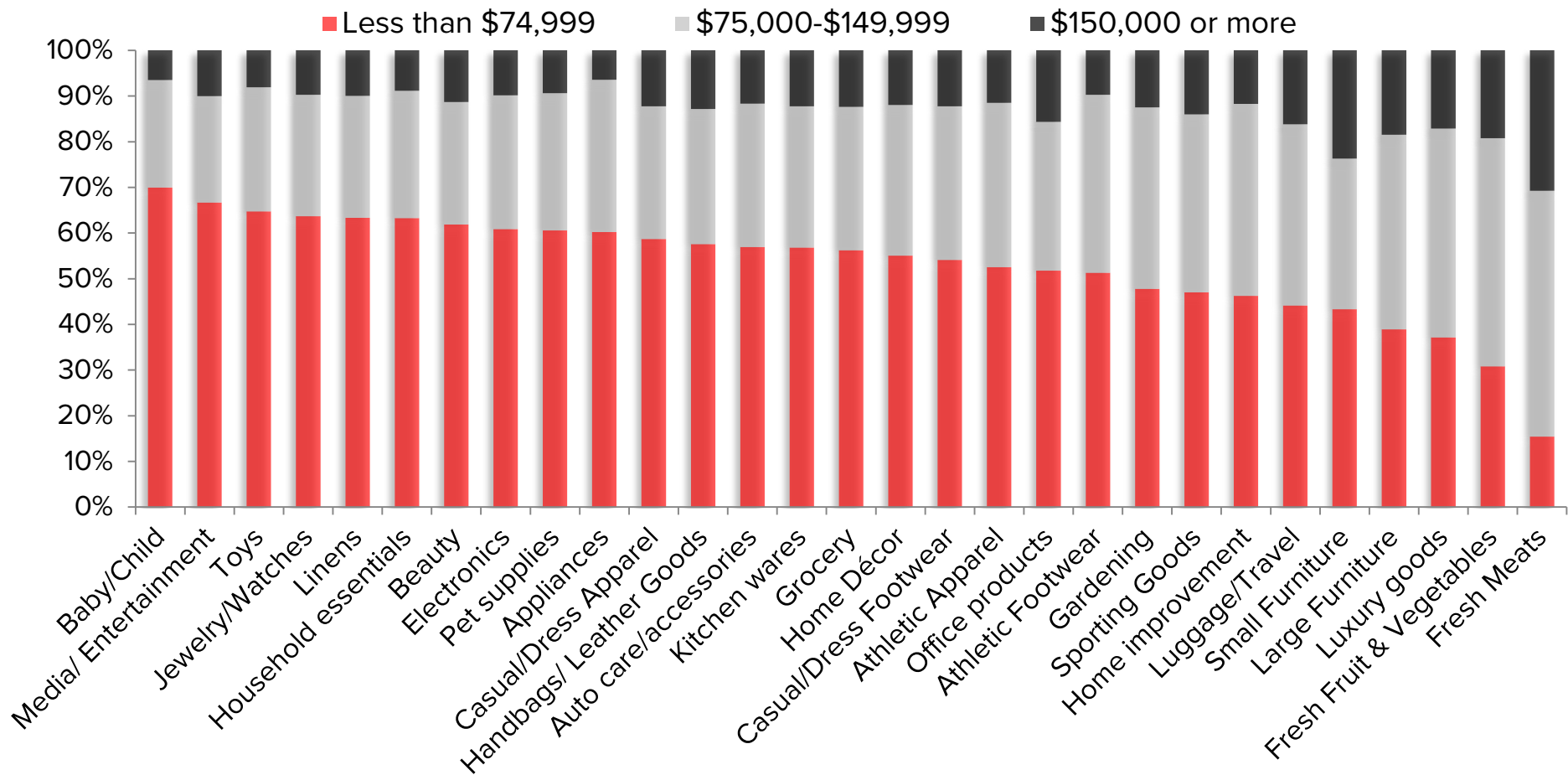
TRANSPARENCY

HOW OFTEN DO YOU REFERENCE PEER PRODUCT REVIEWS WHEN SEARCHING FOR ITEMS TO BUY ON AMAZON.COM?



More than half of shoppers use read peer reviews, and 31% use them almost every time they shop.

SHOPPED CATEGORIES BY CUSTOMER CLASS





OTHER COOL DATA

AMAZON MOM/FAMILY = HIGH SHOPPING FREQUENCY

Of those who shop Amazon daily, 73% have kids at home.

32% are of daily shoppers are between ages 25 & 34 (vs 17% Survey Avg)



Become an
amazon
mom



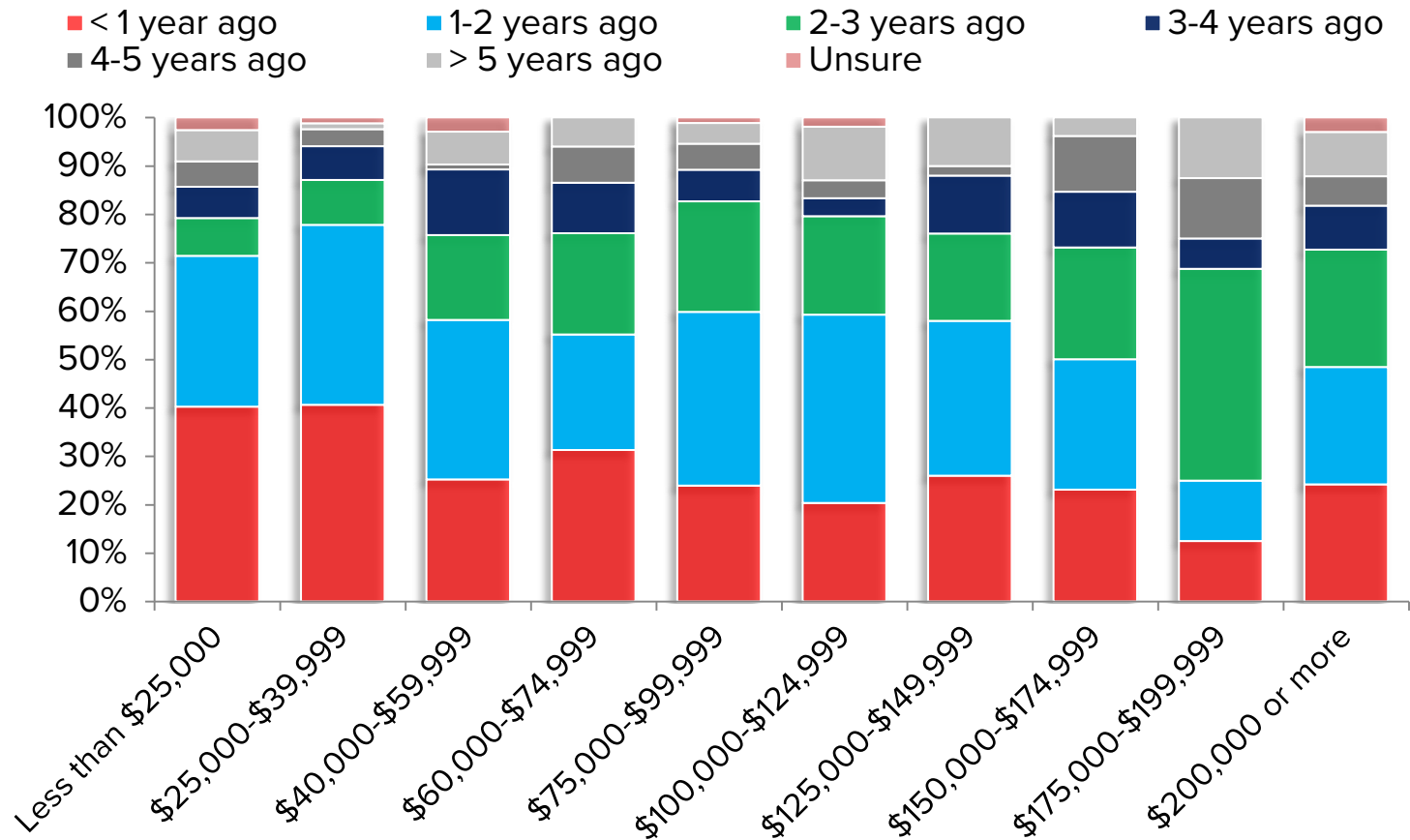
AMAZON MOM/FAMILY

Having kids and being in the age range of when having kids means high shopping frequency. Amazon Mom/Family is likely driving a notable portion of this.

Amazon Mom was changed to Amazon Family in 2015. It offers discounts on diapers and other baby savings.

INCOME OF PRIME MEMBERS QUALITY GOING DOWN

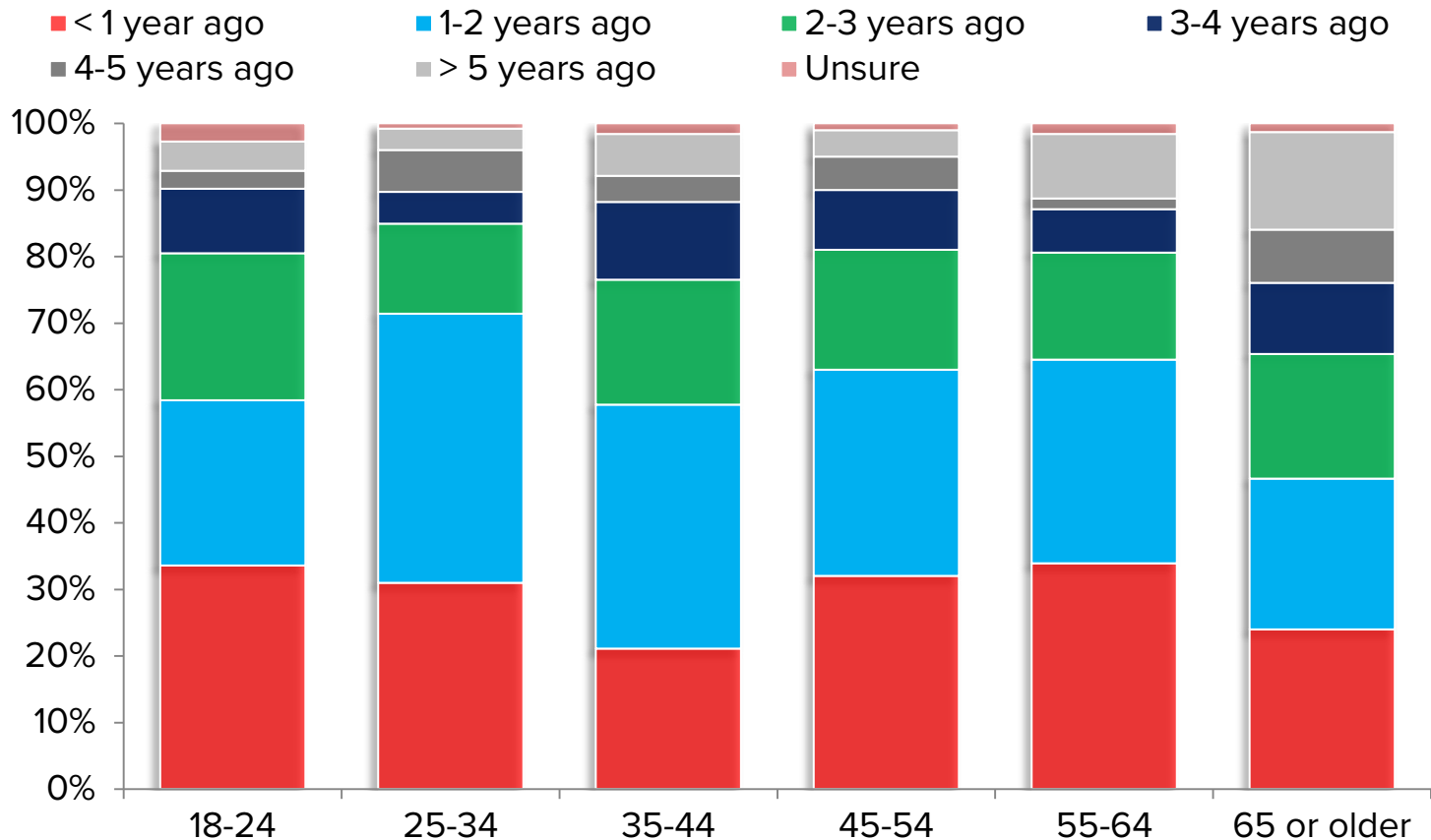
HOW LONG AGO DID YOU SIGN UP TO BE AN AMAZON PRIME MEMBER?



Newer prime members are falling into lower income buckets.

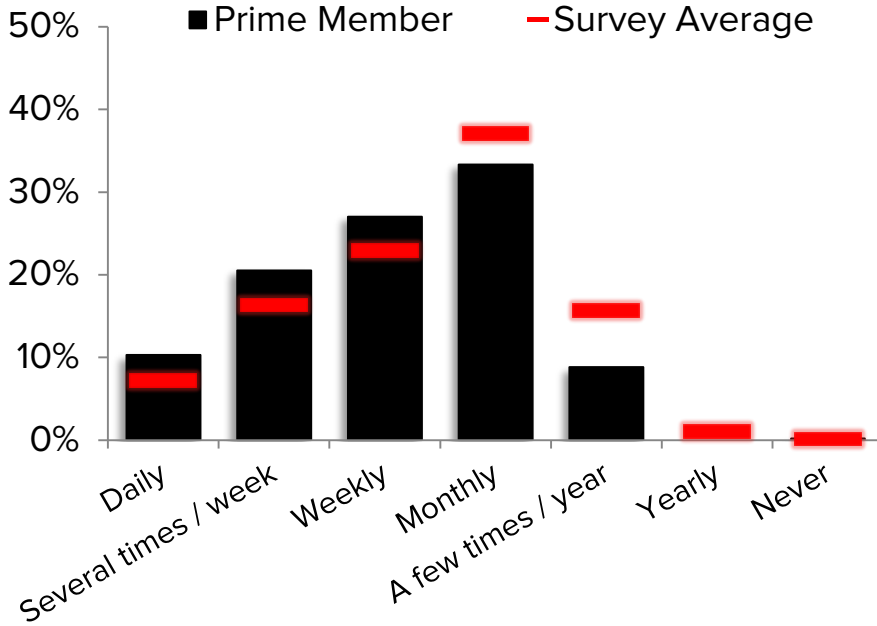
INCREMENTAL PRIME CUSTOMER AGE DISTRIBUTION

HOW LONG AGO DID YOU SIGN UP TO BE AN AMAZON PRIME MEMBER?

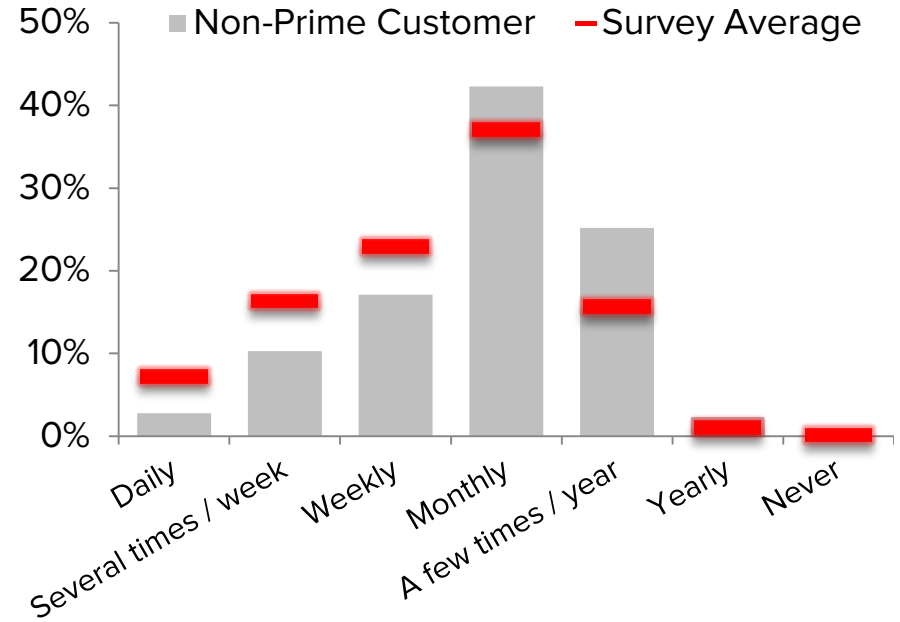


Age distribution is not showing a clear trend.

PRIME VS NON-PRIME CUSTOMER SPENDING FREQUENCY



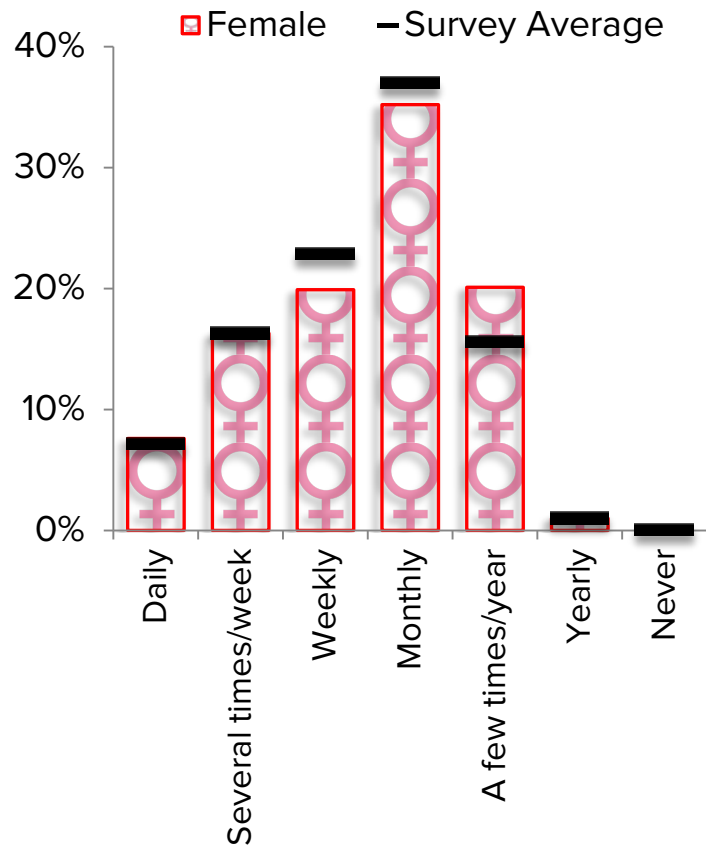
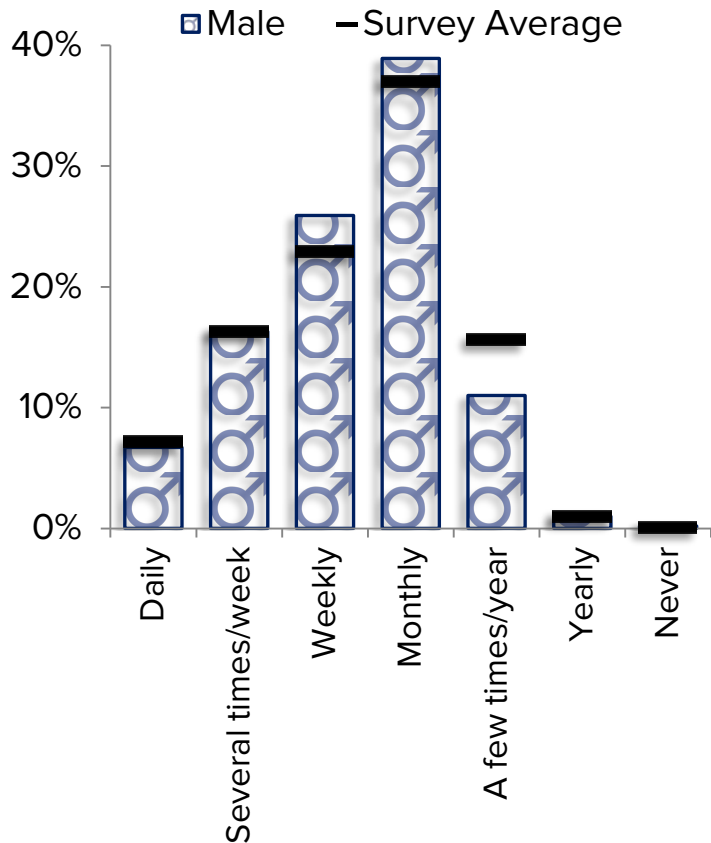
PRIME MEMBER



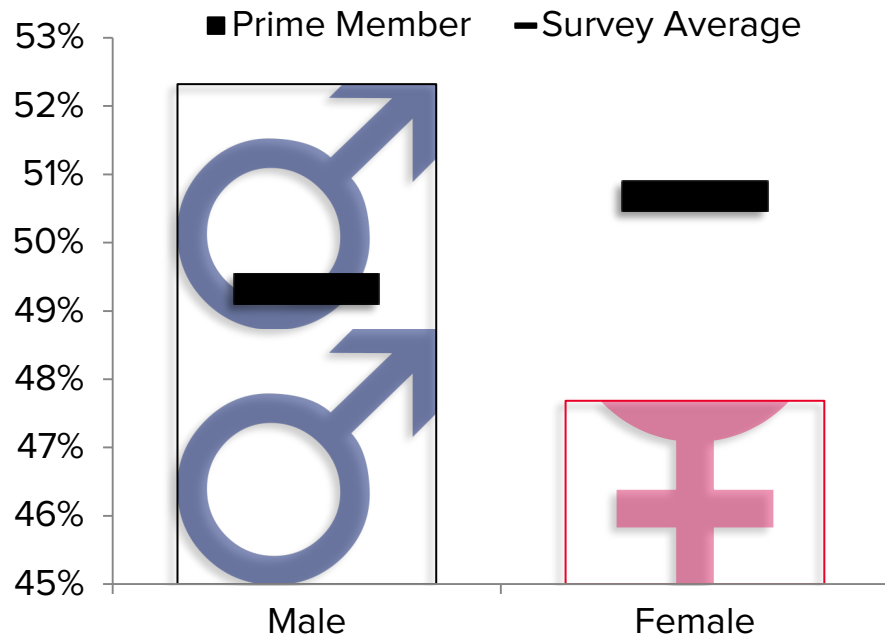
NON-PRIME CUSTOMER

DUDES SHOP SLIGHTLY MORE OFTEN

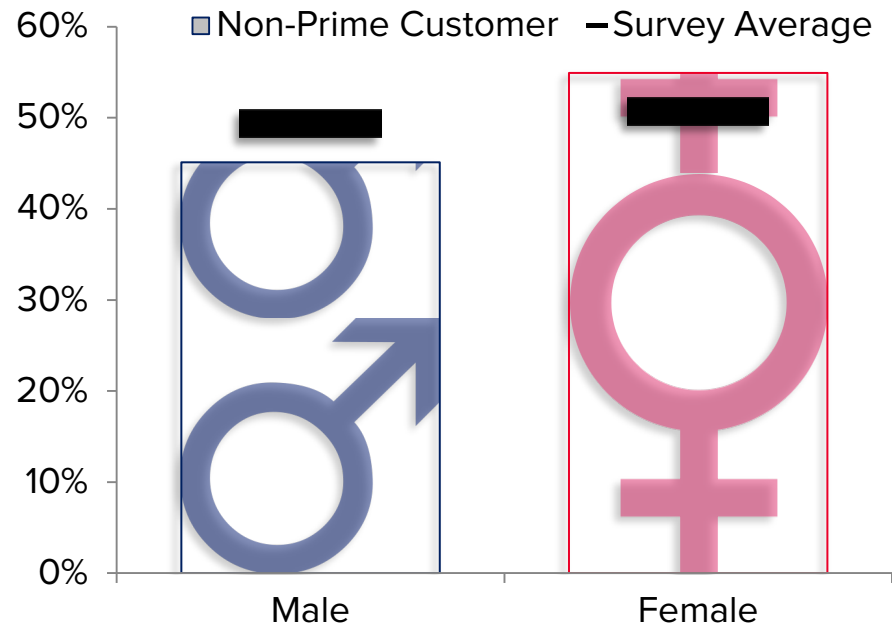
HOW OFTEN DO YOU SHOP AT AMAZON.COM?



PRIME PROB IN HEAD OF HOUSEHOLD'S NAME

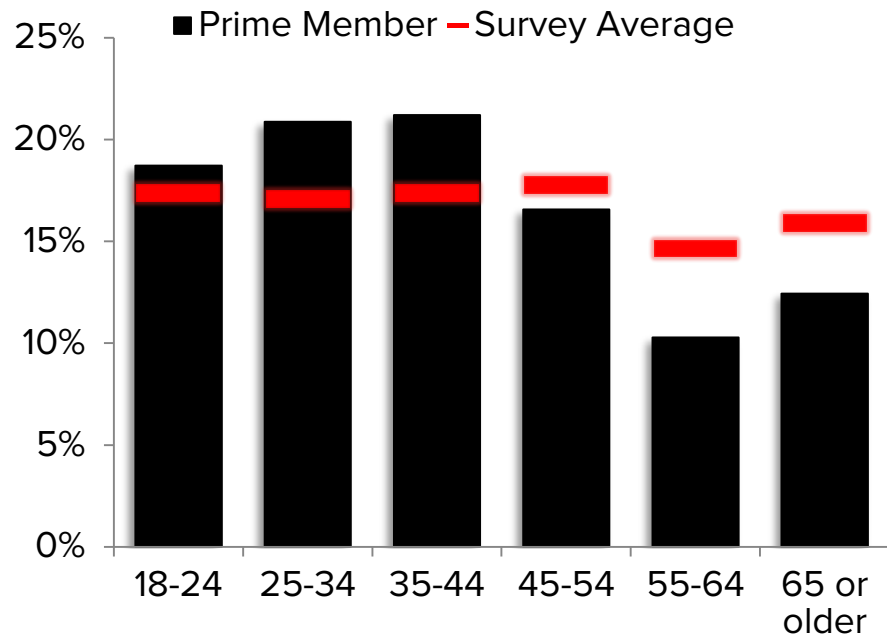


PRIME MEMBER

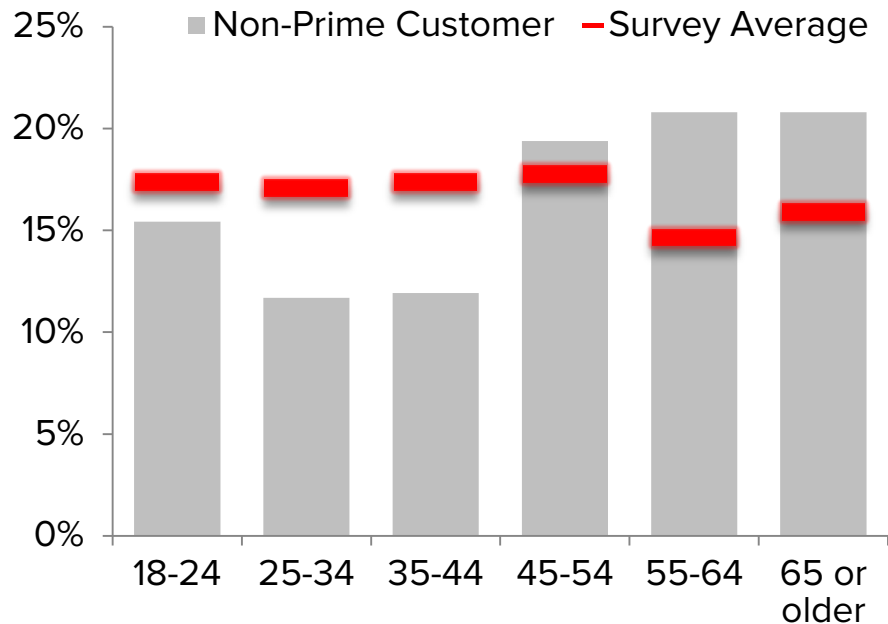


NON-PRIME CUSTOMER

HERE'S A DEMOGRAPHIC WAVE FOR YOU



PRIME MEMBER

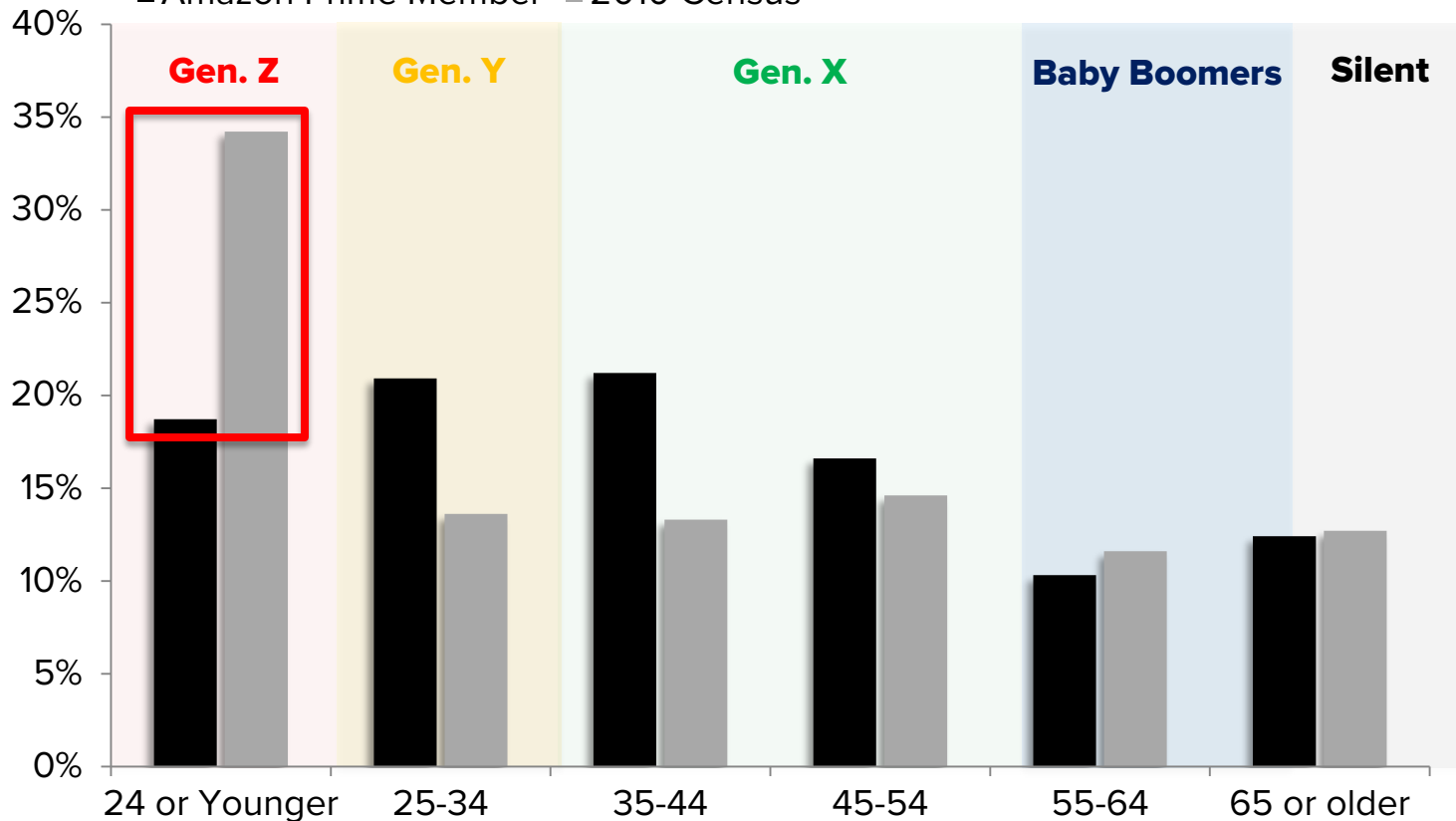


NON-PRIME CUSTOMER

PRIME MEMBER AGE DISTRIBUTION BY GENERATION

PRIME MEMBER AGE VS 2010 CENSUS AGE BUCKETS

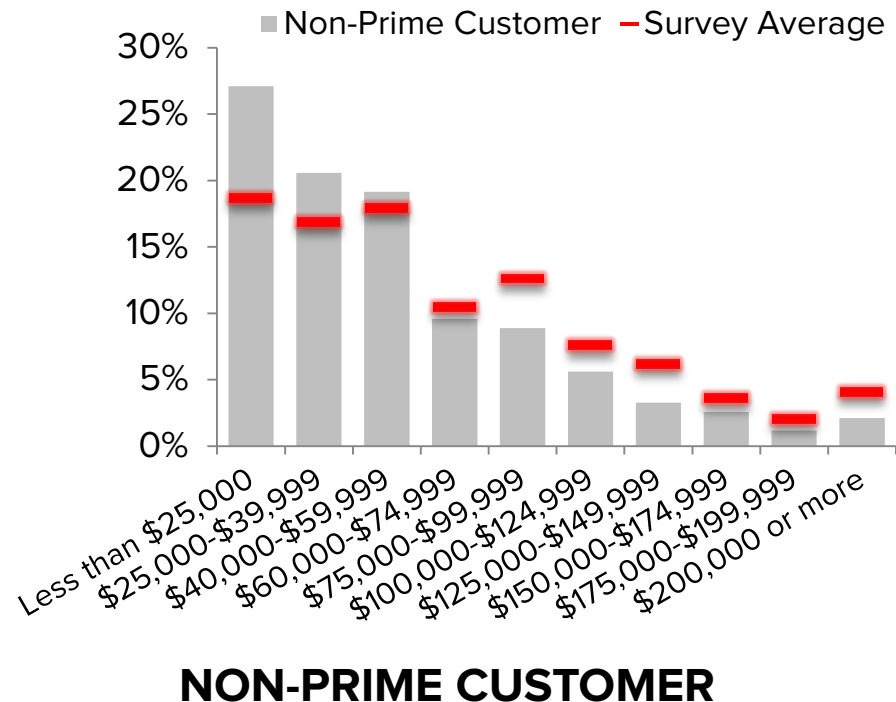
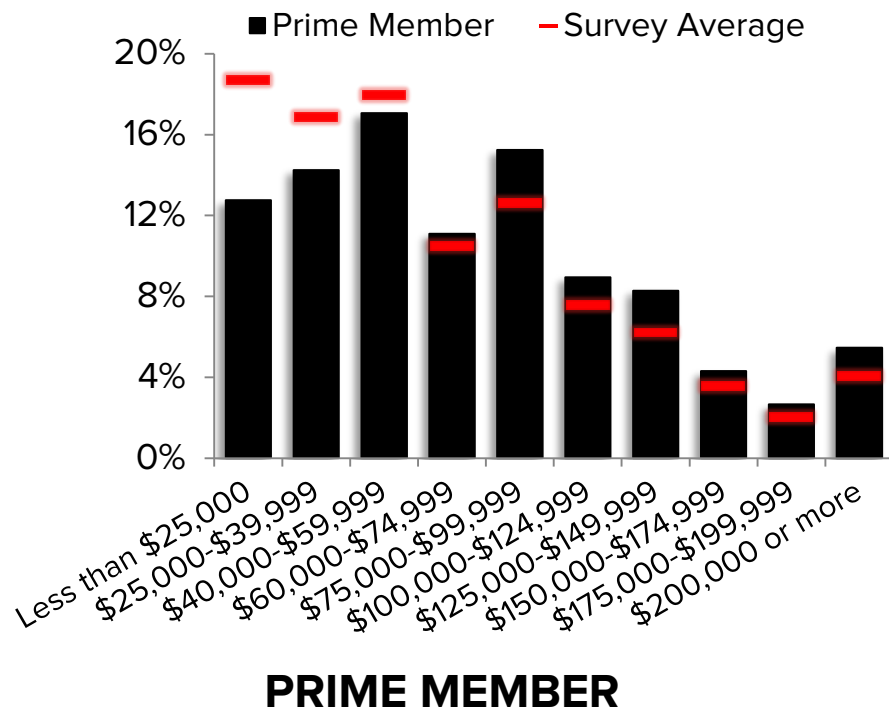
■ Amazon Prime Member ■ 2010 Census



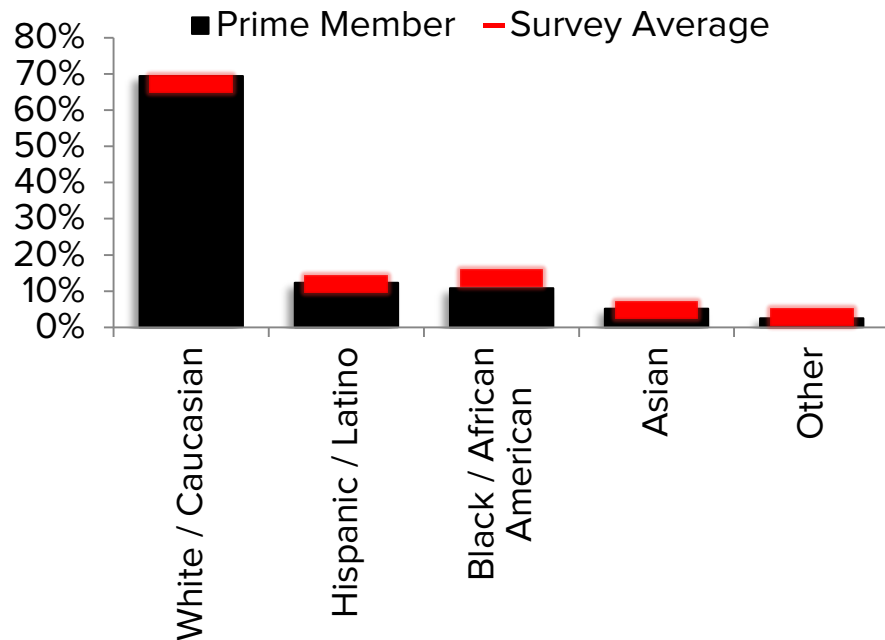
When contemplating the share opportunity for Amazon, keep in mind the adoption and utilization differences of generations.

Where will it be when millennials (Gen Y/Z) reach peak spending?

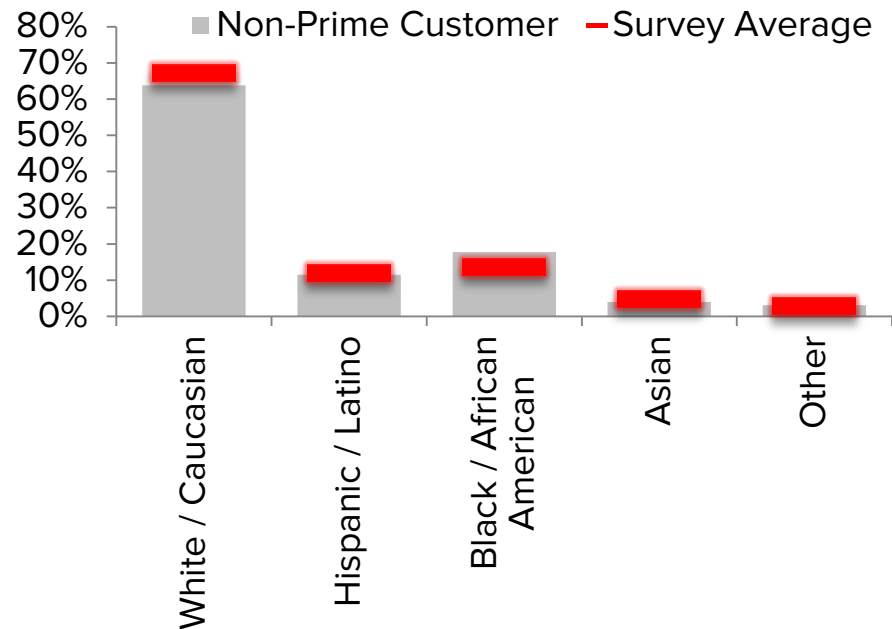
PRIME MEMBER HOUSEHOLD INCOME



PRIME RACE/ETHNICITY

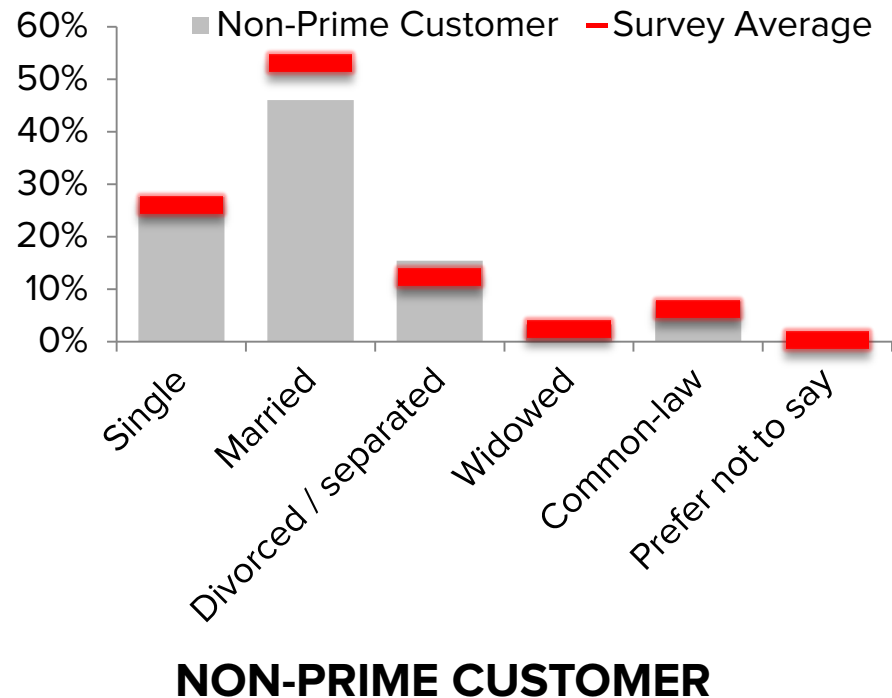
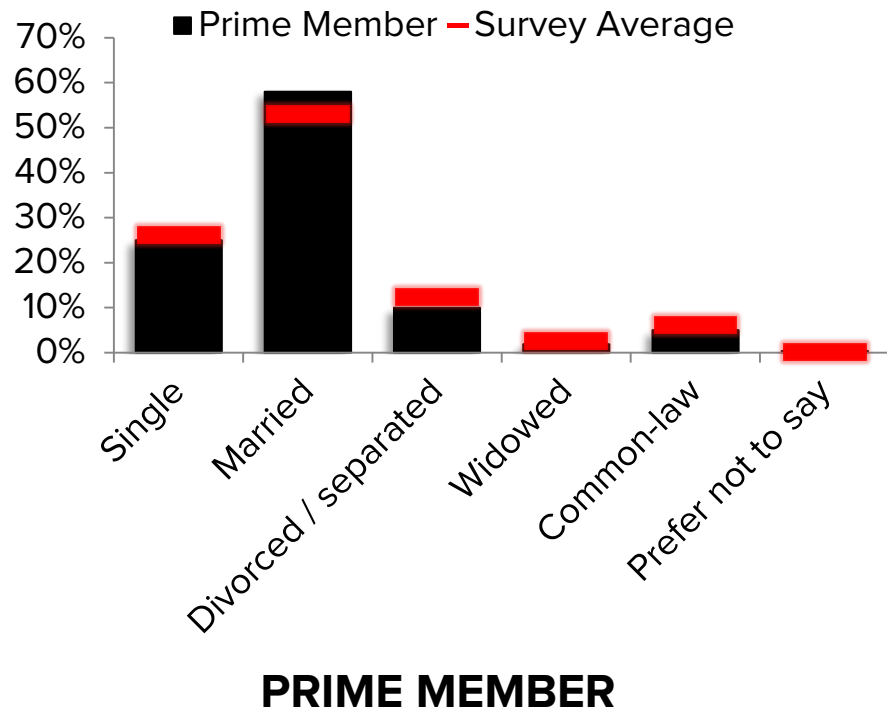


PRIME MEMBER

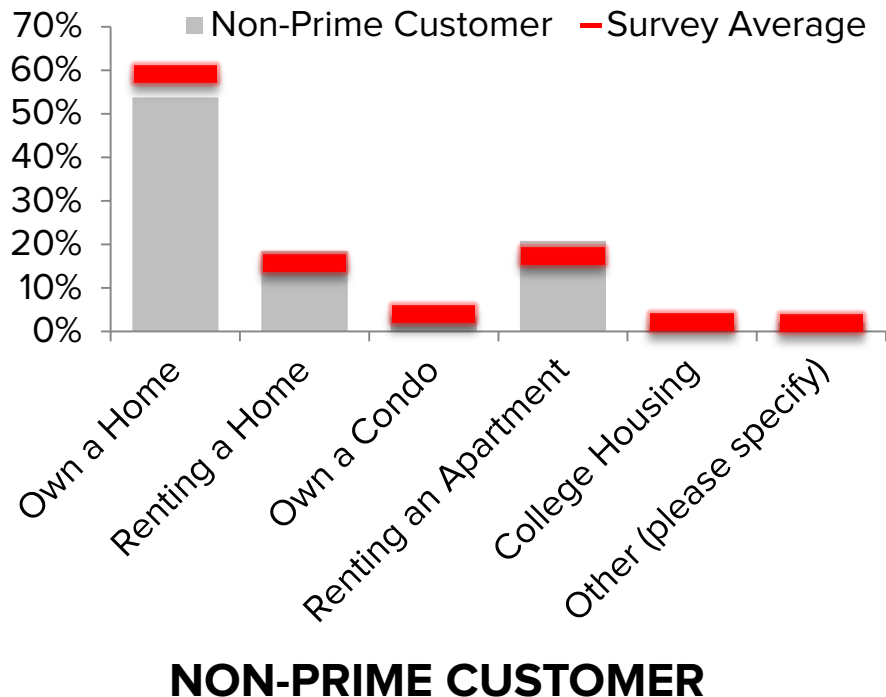
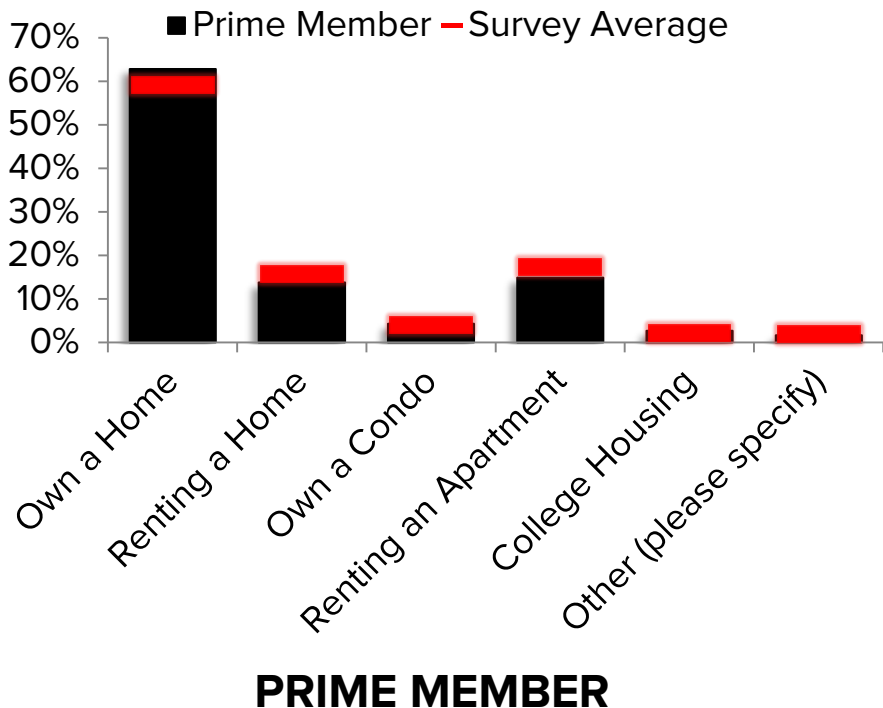


NON-PRIME CUSTOMER

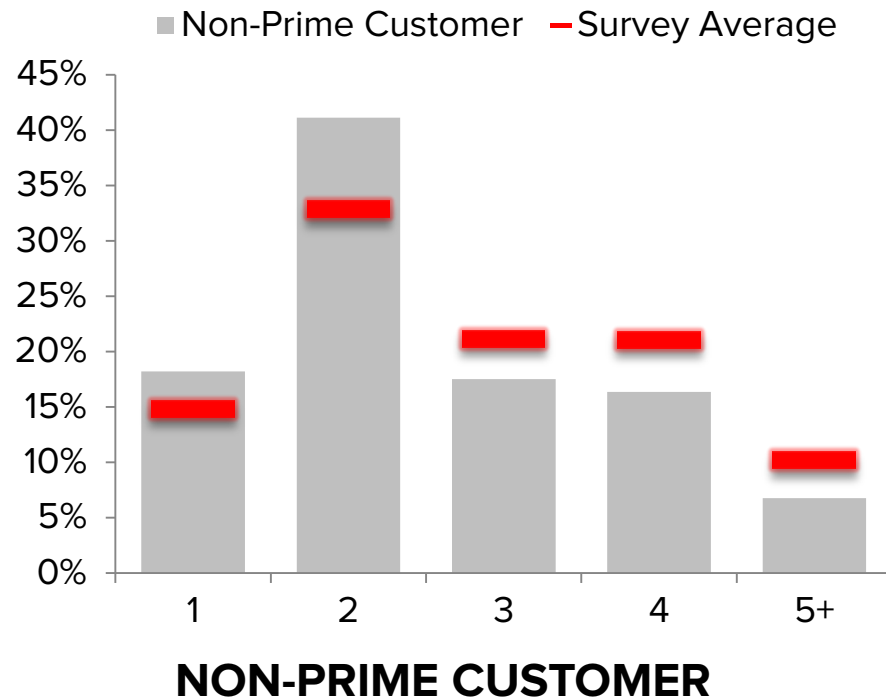
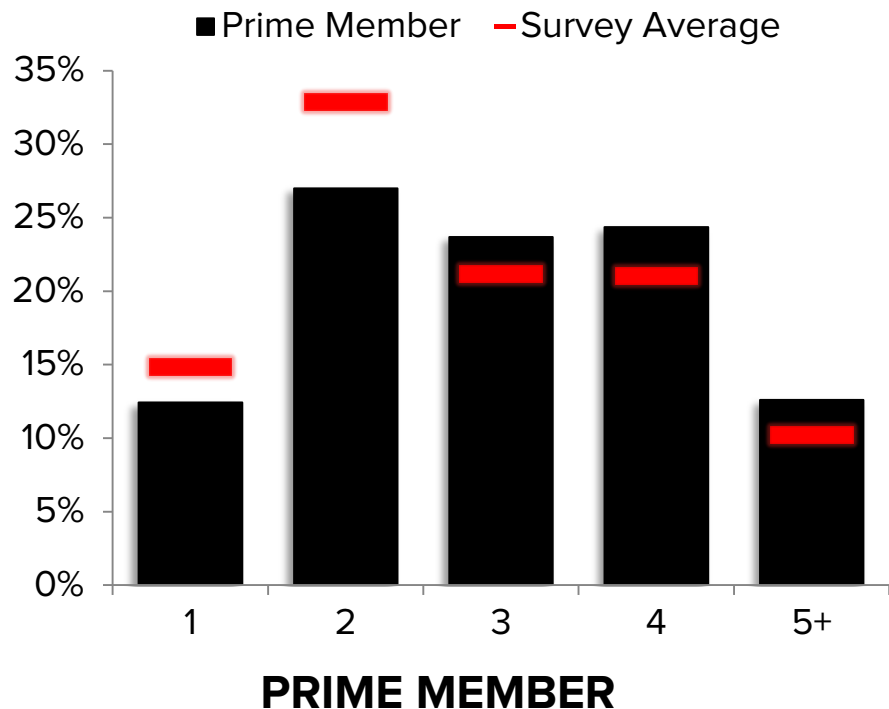
PRIME MEMBER MARITAL STATUS



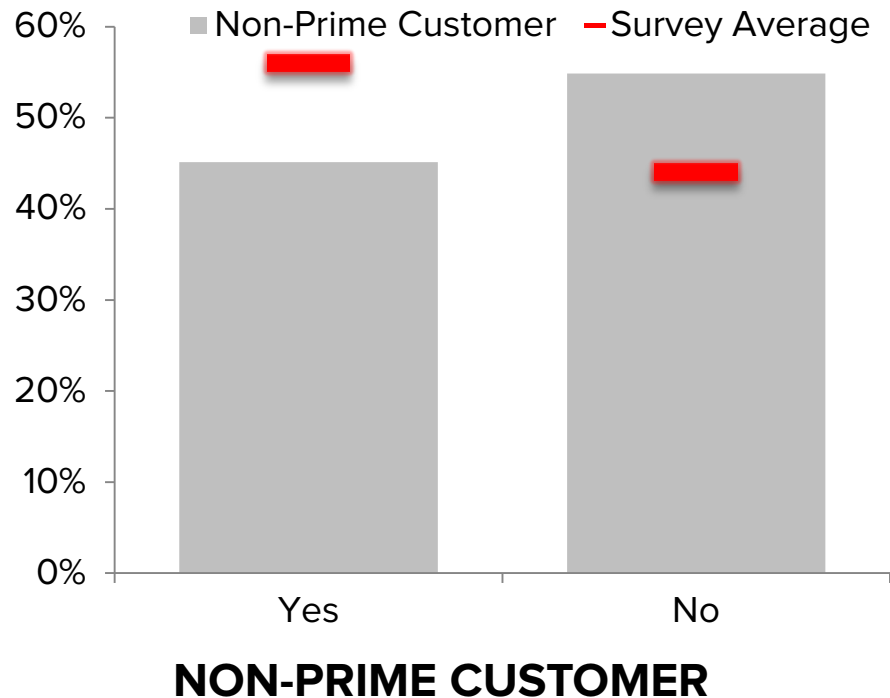
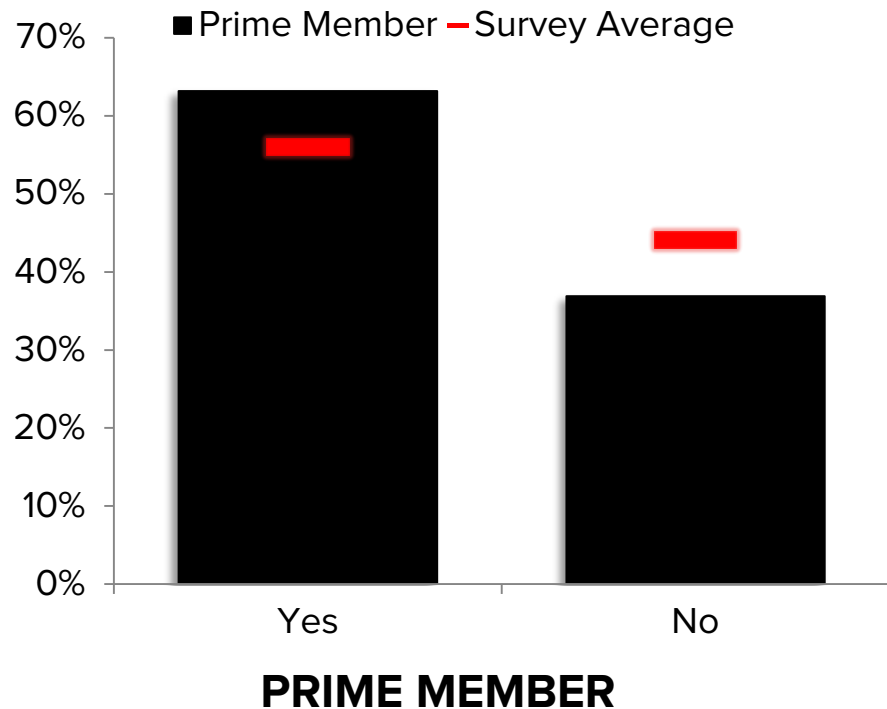
PRIME MEMBER HOUSING SITUATION



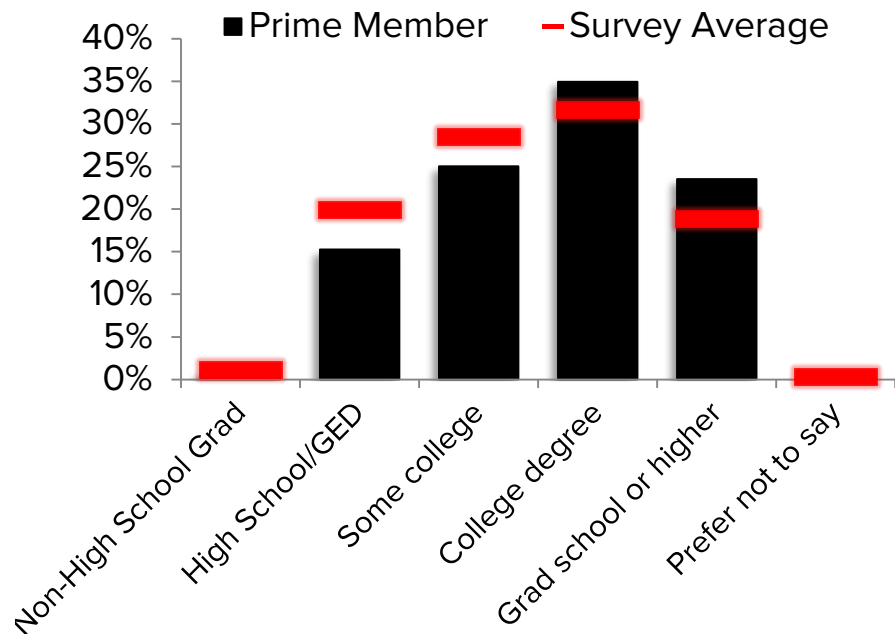
HOW MANY PEOPLE ARE LIVING IN YOUR HOUSEHOLD?



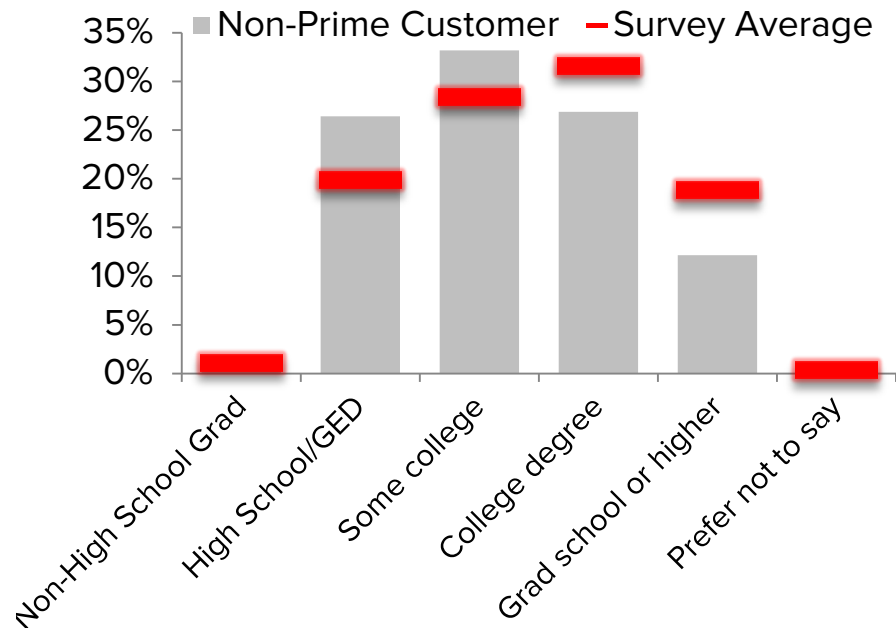
DO YOU HAVE CHILDREN LIVING AT HOME?



PRIME MEMBER EDUCATION

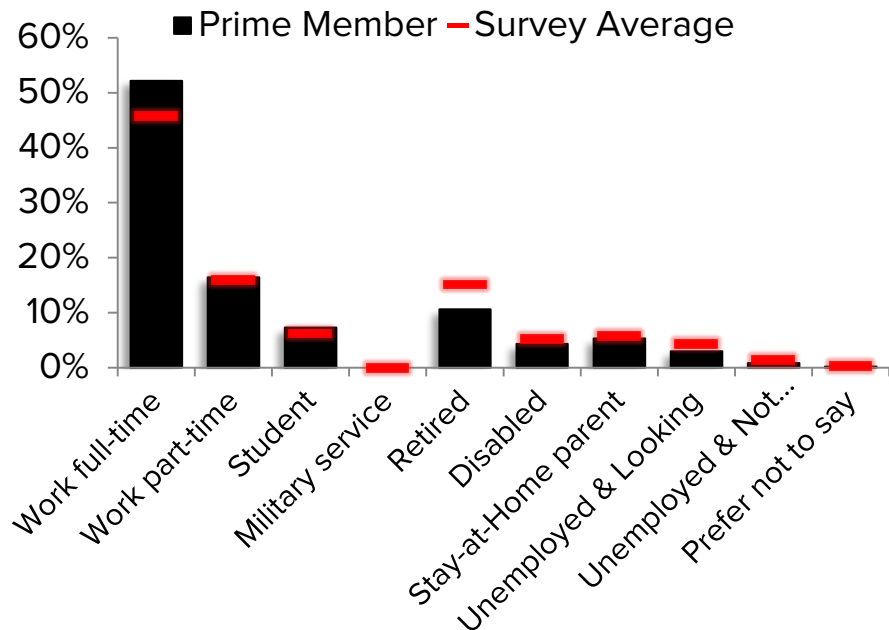


PRIME MEMBER

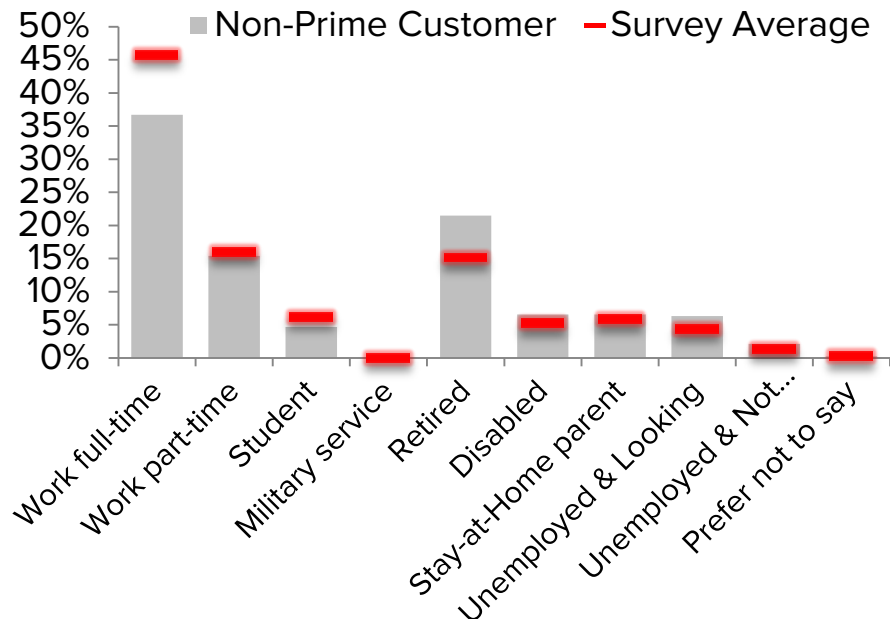


NON-PRIME CUSTOMER

EMPLOYMENT SITUATION

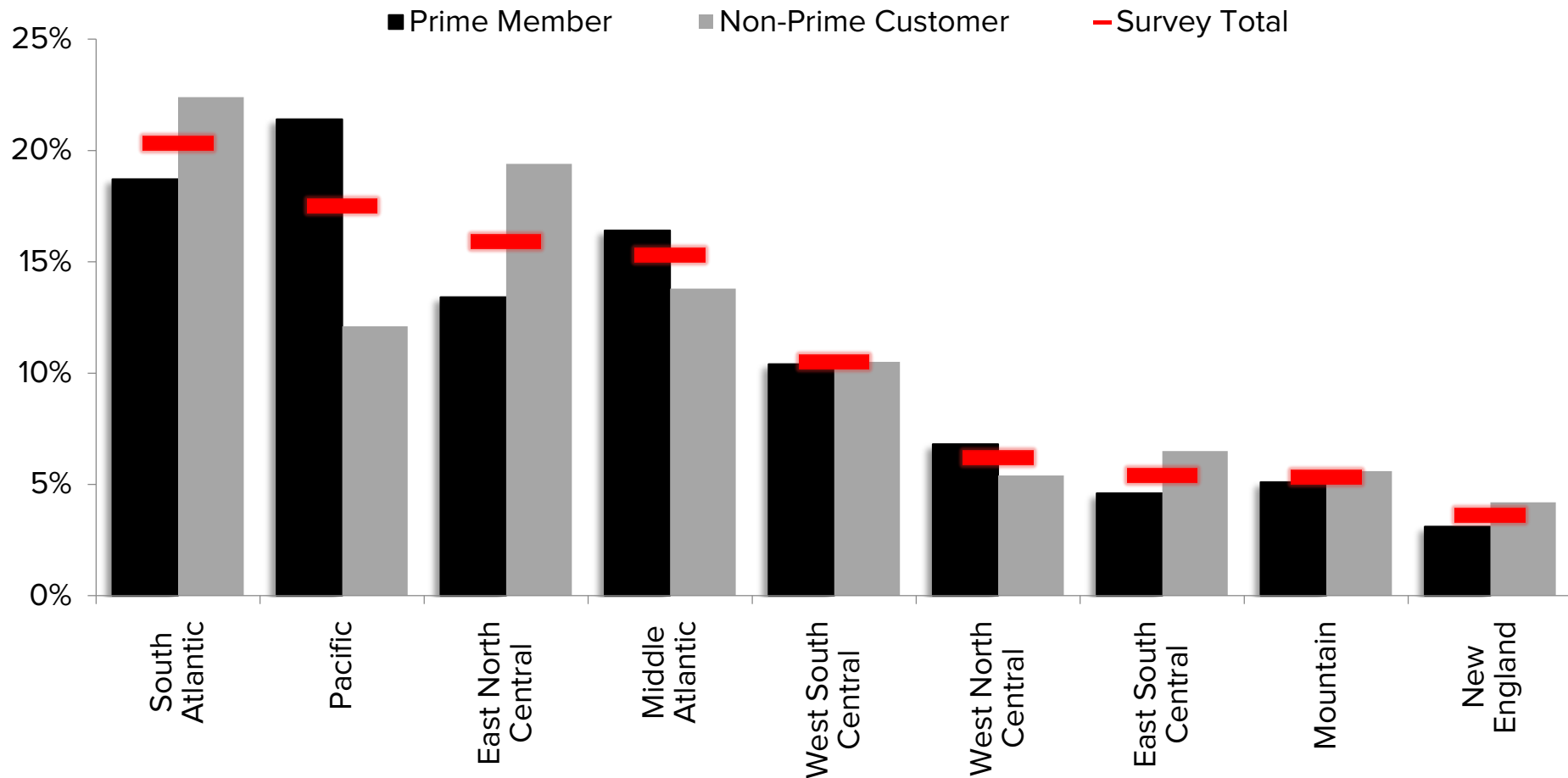


PRIME MEMBER



NON-PRIME CUSTOMER

REGIONAL PRIME/AMAZON BIAS



DISTRIBUTION & FULFILLMENT CENTERS

AMZN US = 1.7x THE DC/FULFILLMENT SQUARE FOOTAGE OF TARGET

AMZN Distribution Facilities Square Feet ('000)		
Fulfillment, Redistribution, & Sortation Centers	124	81,847
Other Facilities	90	7,259
US Total	214	89,106
Fulfillment, Redistribution, & Sortation Centers	96	48,046
Prime Now Hubs & Other Facilities	51	1,673
Int'l Total	147	49,720
AMZN Total	361	138,826

AMZN added 26 Fulfillment centers in 2016 vs 14 in 2015.



PLEASE SUBMIT QUESTIONS* TO

QA@HEDGEYE.COM

**ANSWERED AT THE END OF THE CALL*

FOR MORE INFORMATION, CONTACT US AT:

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(203) 562-6500