



Retail

ELEVATOR PITCH

Presented by Hedgeye Retail Sector

Long

Amazon

Ticker	AMZN		2022A	2023A	2024E	2025E	2026E
Price	\$159	Hedgeye EPS	\$ (0.27)	\$ 2.88	\$ 4.82	\$ 6.26	\$ 8.03
Market Cap	1646 bn	Street EPS			\$ 3.84	\$ 5.41	\$ 6.93
Enterprise Value	1697 bn	Variance			26%	16%	16%
Short Interest	0.9%	P/E			33.0x	25.5x	19.8x
Net Debt/EBITDA	NA	Target P/E			40.0x	35.0x	30.0x
Sell Side Target	\$185	Implied Price			\$193	\$219	\$241
Return to SS Tgt	16%	Price Variance %			21%	38%	51%

HEDGEYE EDGE | Earnings Upward Revision Cycle In A Category Killer

Ecommerce globally continues to gain wallet share with Amazon being a key player in several global markets. The powerful Amazon Prime platform continues to win share within ecommerce. Amazon's new Buy With Prime program enables AMZN to capture profits on transactions across the entire ecommerce landscape, even if not done on the Amazon site. The expanded logistics capabilities from delivery service providers enhances speed for share gains and captures more of the online retail value chain. The rapidly growing and highly profitable advertising business will continue to thrive as Amazon's platform continues to take consumer mindshare. Amazon Web Services (AWS) carries the best price/value proposition in cloud computing which will continue to gain share in a rapidly growing market, and one that should be benefitting from accelerated AI product offerings to improve customer efficiency. That all makes for long term sustainable top line growth for AMZN while the new CEO Andy Jassy has commanded a new focus on profitability and return on investment that should improve margin performance for the foreseeable future. Amazon won't stop investing, but should see investments directed towards initiatives with a higher probability of return with less waste. High growth at improving incremental margins will take earnings numbers much higher.

NEAR-TERM (TREND) | Margin Tailwinds But Topline Done Accelerating

With easy compares and return to ecommerce taking wallet share in US online retail at AMZN has been accelerating. Comps start to get progressively harder from here, but the margin tailwind is still huge with the higher margin businesses growing rapidly and the company managing SG&A costs. The high margin Advertising business just accelerated to +26% growth and AWS is on a multi-quarter acceleration of high margin revenue growth. Amazon is delivering some of the best EBIT growth in company history and the stock is approaching all time highs.

KEY RISKS TO THE CALL | Macro Cycles and Regulatory Scrutiny

As one of the biggest retailers in the US and the globe, the macroeconomic cycle risk is real for Amazon both in the US and globally. Changes in discretionary consumer spending and corporate tech and marketing budgets will have impact on core Amazon businesses. The FTC currently is going after Amazon's market power with legal action. AMZN is likely to prevail, but that and other regulatory scrutiny is a risk to the stock.

COMPANY DESCRIPTION

Amazon is the global leader in ecommerce and cloud computing services. It operates as a first person retailer as well as hosting third party sellers that make up 60% of units sold.

KEY MODELING ASSUMPTIONS

	2022A	2023A	2024E	2025E	2026E
Revenue (\$B)	\$514.0	\$574.8	\$642.5	\$749.2	\$877.6
YY % Change		11.8%	11.8%	16.6%	17.1%
Gross Margin %	43.8%	47.0%	48.2%	48.8%	49.4%
EBIT Margin %	2.4%	6.4%	9.7%	10.6%	11.4%
EBITDA incl SBC (\$B)	\$ 54.2	\$ 86.0	\$ 112.1	\$ 131.2	\$ 156.5
Net Debt (\$B)	\$ 13.3	\$ (19.4)	\$ (42.9)	\$ (64.8)	\$ (90.8)
Net Debt/EBITDA	0.2x	NA	NA	NA	NA
FCF/Share	\$ 0.89	\$ 3.35	\$ 4.61	\$ 5.97	\$ 7.40