

## Company Overview:

Amazon is one of the world's largest retailers (with a sideline in fast-growing and high-margin advertising activities) and also owns one of the world's largest software businesses. Despite its current massive size, we see Amazon's opportunities as mostly unconstrained based on a successful track record of capitalizing on consumer and IT department spending.

<u>Name</u>	<u>Ticker</u>	<u>Growth</u>	<u>Dividend</u>	<u>D + G</u>
Amazon.com, Inc.	AMZN	15.00%	0.00%	15.00%

## Highlights:

We believe that Amazon is a coiled spring on the back of Amazon Web Services (AWS) and the consumer business. Putting it all together, the company should see strong growth as margin expansion comes to fruition in AWS and Consumer, as the company could have a valuation that is not demanding on a next year or FY2. AMZN is doubling down on the short fulfillment windows, which just shows how well they've built out their infrastructure. We believe that consensus is conservative and if they deliver on it, the stock could do well. They've shown over recent quarters what the company can do from an operating leverage standpoint where many investors can regain comfortability with the name.

*We believe the company does well when it's harvesting and poor when it's investing. Right now, it's harvesting.*

## Bull Case:

- **On the Cusp of a Margin Renaissance** – We see evidence of this emerging in gross margin & incremental operating income guide was by far the strongest in company history. We think now is the time to buy AMZN with margins inflecting & AWS growth troughing. Share gains should also improve with efficiency.
- **Migration of Advertising Dollars from Offline to Online** – Given the amount of information AMZN has about consumers' purchase behavior – the most important behavioral targeting criteria – we believe AMZN will have more sophisticated behavioral targeting capabilities than even META and GOOG (AMZN is the #3 largest player in advertising behind META and GOOG). Given its structure of largely keeping consumers on the AMZN website to complete purchases, advertising is highly complementary to AMZN's retail business.
- **The Death of Brick-And-Mortar** – There's no arguing that there has been a slow death in the "old" brick-and-mortar store model – the cause of death being e-commerce, a.k.a., Amazon. E-commerce has evolved in the last 20 years, but it was Amazon that did the most to alter how we buy, sell, and transact. It has been among the most innovative and claims most of the e-commerce market. In terms of value, e-commerce still makes up a fraction of overall retail purchases, but this should be seen as a long runway for growth at Amazon. In 2019, Amazon took in \$280.52 billion in sales, half of the online market, and only 5% of US total retail sales. This is a growth trend that will likely continue.

## Bear Case:

- **Weakness in Global Economics and Consumer** – Concerns about an economic downturn are worth considering when looking at Amazon. While Amazon Web Services (AWS) probably holds up well because of the secular growth trends it is driving and the long-term contracts it has with many of its customers, the retail business might face risks because of the likelihood that consumer spending trends would probably negatively impact the company in a way they didn't during the last recession.
- **Increased Regulations** – The FTC first announced its Amazon antitrust investigation in 2019, focusing on Amazon's marketplace practices, before expanding the investigation to include AWS & the intersection of cloud computing & retail. The FTC also investigated Amazon's acquisitions of iRobot & OneMedical, and although the acquisitions were not blocked the FTC noted it would "monitor" the acquisitions going forward (especially as it relates to health data privacy). The FTC's suit against Amazon would be the next step in the ongoing US regulatory stance against big tech, following the DOJ lawsuit against Google for its iOS & Android search deals, and the FTC's lawsuit against Facebook. Given press reports and FTC Chairwoman Lina Khan's public views on Amazon prior to her role with the FTC, we think an antitrust suit is now "expected".
- **Increased Competition** – Competition is pervasive for Amazon, and so far in its history, we believe Amazon has navigated through that competition in an incredibly successful manner. However, there are limited barriers to entry in selling goods or otherwise replicating individual aspects of Amazon's business. Over time, efforts by manufacturers or other retailers to compete differently or otherwise alter the terms under which they work together could have a negative effect on Amazon.

## Overall Thesis:

We believe that Amazon is a fundamentally sound business, the company owns one of the most powerful brands in the world, and it has an unparalleled logistics and distribution network setting it apart from other players in online commerce. Massive scale provides cost advantages in both e-commerce and cloud computing, generating an additional layer of competitive strength for the business. In our opinion, we believe that management has demonstrated an exceptional track record of successful innovation and sustained growth over the long term.

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