

# An Empirical Study on Various Stock Valuation Models & Application of DCF Valuation Model in Valuation of Amazon Inc.

*by Sarthak Jasra*

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**Submission date:** 18-May-2020 01:09PM (UTC+0530)

**Submission ID:** 1326852614

**File name:** luation\_Models\_Application\_of\_DCF\_Valuation\_Model\_on\_Amazon.docx (13.17M)

**Word count:** 7608

**Character count:** 44242

**Major Research Project Report on**

**An Empirical Study on Various Stock Valuation  
Models & Application of DCF Valuation Model in  
Valuation of Amazon Inc.**

Submitted By:

Sarthak Jasra

2K18/MBA/721



**UNIVERSITY <sup>50</sup>SCHOOL OF MANAGEMENT**

**& ENTREPRENEURSHIP**

**Delhi Technological University**

**Bawana Road Delhi 110042**

**April -May 2020**

**DELHI TECHNOLOGICAL UNIVERSITY**

**CERTIFICATE**

This is to certify that the project titled **“An Empirical Study on Various Stock Valuation Metrics & Application of DCF Valuation Metric in Valuation of Amazon Inc.”** is an academic work done by **“Sarthak Jasra”** submitted in the partial fulfillment of the requirement for the award of the degree of **“Masters in Business Administration”** from **“University School of Management & Entrepreneurship, Delhi Technological University, Delhi”** under my guidance and direction.

To the best of my knowledge and belief the data and information presented by him in the project has not been submitted earlier elsewhere.

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Be it known by all those present, that the board of directors of  
the Corporate Finance Institute® have conferred upon

SARTHAK JASRA

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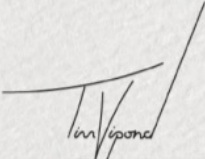
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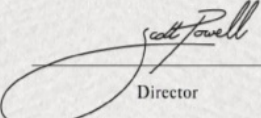
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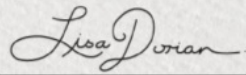
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Chair of the board

  
Director

  
Director

**DECLARATION**

This is to certify that I have completed the Project titled “An Empirical Study on Various Stock Valuation Metrics & Application of DCF Valuation Metric in Valuation of Amazon Inc.” in the partial fulfillment of the requirement for the award of the degree of “Masters in Business Administration” from “University School of Management & Entrepreneurship, Delhi Technological University, Delhi.”

It is also certified that this project is an original work and the same has not been submitted earlier anywhere.

**Sarthak Jasra**

**2K18/MBA/721**

## ACKNOWLEDGEMENT

Words often fails to express one's feelings towards others, still I would like to <sup>4</sup> express my sincere gratitude towards my guide **Mr. Anurag Chaturvedi (Assistant Professor, USME, DTU)** for his able guidance, continuous support and cooperation throughout my project, without whom the present work would not have been possible.

I would also like to extend my sincere & heartfelt obligation towards all my respondents who helped me in the collection of all the necessary data and information that helped me proceed with this research project and making it a successful task.

Lastly, I <sup>4</sup> express my gratitude to my family and friends for their unending support and tireless effort that kept me motivated throughout the completion of this project.

**Sarthak Jasra**

**2K18/MBA/721**

## EXECUTIVE SUMMARY

### **Purpose/Scope of Research:**

- To Study About Various Valuation Methods to value stocks.
- To Apply Industry's Most Relevant Valuation Method I.e. Discounted Cash Flow Valuation Method to carry out Valuation of Amazon Inc.
- Emergence of use of machine & deep learning in Stock Price Predictions.
- Emergence of Robo-Advisors in Financial Investment Industry.
- Is COVID-19 a boon or bane on Amazon's Stock Price.

The Research discusses in detail about the Valuation Methods or, Metrics to value a stock.  
Such as: Dividend Discount Model, Discounted Cash Flow Model & Excess Returns Model.

The use of all models depends upon from industry to industry & from availability of information to carry out the research.

At the End, Industries most Relevant Model i.e. Discounted Cash Flow Model is going to be used to carry out Valuation of International Behemoth: 'Amazon Inc.'

### **Technique used for Research:**

- There are 2 Industry Standardized Techniques used in this Project Report, which are:
  - Quantitative Analysis carried out via DCF Valuation to judge profitability of the company
  - Quantitative Analysis of Financial Statements to judge credibility of Management.
- At the end, both the Analysis leads to a conclusion whether the Company will create value for its shareholders hence, A 'Buy/Sell/Hold' rating will be issued.

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**INTRODUCTION****1.1 INDUSTRY OVERVIEW****About Stock Valuation Industry:**

In Equity Markets, All over the world. Various Financial Analysts & Research Analysts work upon ascertaining the Intrinsic value of each & Every frequently traded stock.

Various methods are deployed by various analysts to judge whether the stock is: over-valued (Future market prices will decrease for the stock & hence may reap losses for the investor or under-valued (Future market prices will increase for the stock & hence may reap huge profits for the investor.

There are 2 kinds of specialized analysts in the equity valuation industry:

1. Fundamental Analysts: They use various industry accepted models to ascertain Intrinsic value of a stock. Most common being the Discounted cash flow (DCF Model) which takes account the present value of future cash flows to the firm as well as present value of terminal value of the firm after a definite period of time. Then, Enterprise value can be ascertained. Then, subtract debt & add cash, we get equity value of the firm. Then to ascertain Intrinsic per share value, we divide equity value by Number of shares outstanding for the firm.

The main focus for Fundamental Analysts is to invest for long term. (3+ Years)

2. Technical Analysts: These types of analysts don't go for finding intrinsic value of the stock. For them, market price is the most important thing & these type of Analysts uses a variety of tools at their disposal to predict where the stock's price would go next.

There are various career opportunities in the Industry. Most of them being in Buy side firms such as: Insurance firms, Sovereign Wealth funds, Mutual fund companies, Banks, Pension funds, Hedge Funds etc.

&, there are ample number of opportunities in sell side firms as well such as: Big Investment Banks of the world like: JP Morgan Chase, Morgan Stanley, Goldman Sachs etc.

## 1.2 COMPANY OVERVIEW

### About AMAZON Inc.:

#### Vision:

“Amazon's Business is to be earth's most client driven organization; to manufacture a spot where individuals can come to discover and find anything, they should purchase on the web.”

#### Mission:

“Amazon try to be Earth's most client driven organization. We are guided by four standards: client fixation as opposed to contender center, energy for development, pledge to operational greatness, and long-haul thinking. In every one of our sections, we serve our essential client sets, comprising of buyers, dealers, designers, undertakings, and substance makers.”

#### Description of Business:

“We try to be Earth's most client driven organization. In every one of our sections, we serve our essential client sets, comprising of purchasers, merchants, designers, undertakings, and substance makers. We serve shoppers through our on the web and physical stores and spotlight on determination, cost, and comfort. We offer projects that empower venders to sell their items in our stores and satisfy arrangements through us, and projects that permit creators, performers, movie producers, expertise and application engineers, and others to distribute and sell content. We serve engineers and undertakings of all sizes through our AWS fragment, which offers an expansive arrangement of worldwide register, stockpiling, database, and other assistance contributions. We likewise production and sell electronic gadgets. Also, we offer types of assistance, for example, promoting to merchants, sellers, distributors, and creators, through projects, for example, supported advertisements, show, and video publicizing.”

#### Revenue Generating Activities:

“**Retail sales** – Amazon offers customer items through our on the web and physical stores. Income is perceived when control of the merchandise is moved to the client, which for the most part happens upon our conveyance to an outsider bearer or, on account of an Amazon conveyance, to the client.”

“**Third-party seller services**- Amazon offers projects that empower dealers to sell their items in our stores, and satisfy arrangements through us. We are not the merchant of record in these exchanges. The commissions and any related satisfaction and transportation expenses we gain from these courses of action are perceived when the administrations are rendered, which for the most part endless supply of the related items to an outsider bearer or, on account of an Amazon conveyance, to the client.”

“**Subscription services** - Amazon membership deals incorporate expenses related with Amazon Prime enrollments and access to content including book recordings, computerized video, advanced music, digital books, and other non-AWS membership administrations. Prime enrollments furnish our clients with access to a developing set-up of advantages that speak to a

solitary stand-prepared commitment. Memberships are paid for at the hour of or ahead of time of conveying the administrations. Income from such courses of action is perceived over the membership time frame.”

“**AWS** – Amazon AWS courses of action incorporate worldwide deals of process, stockpiling, database, and different administrations. Income is dispensed to administrations utilizing independent selling costs and is fundamentally perceived when the client utilizes these administrations, in light of the amount of administrations rendered, for example, register or capacity limit conveyed on-request. Certain administrations, including process and database, are additionally offered as a fixed amount over a predefined term, for which income is perceived ratably. Deals commissions we pay regarding gets that surpass one year are promoted and amortized over the agreement term.”

“**Other** – Amazon’s Other income fundamentally incorporates deals of promoting administrations, which are perceived as advertisements are conveyed dependent on the quantity of snaps or impressions.”

### Information about Executives:

#### Information About Our Executive Officers

| Name                 | Age | Position   |
|----------------------|-----|--|
| Jeffrey P. Bezos     | 56  | President, Chief Executive Officer, and Chairman of the Board          |
| Jeffrey M. Blackburn | 50  | Senior Vice President, Business Development                            |
| Andrew R. Jassy      | 52  | CEO Amazon Web Services  |
| Brian T. Olsavsky    | 56  | Senior Vice President and Chief Financial Officer                      |
| Shelley L. Reynolds  | 55  | Vice President, Worldwide Controller, and Principal Accounting Officer |
| Jeffrey A. Wilke     | 53  | CEO Worldwide Consumer   |
| David A. Zapolsky    | 56  | Senior Vice President, General Counsel, and Secretary                  |

**Jeffrey P. Bezos.** Mr. Bezos has been Chairman of the Board of Amazon.com since founding it in 1994 and Chief Executive Officer since May 1996. Mr. Bezos served as President of the Company from founding until June 1999 and again from October 2000 to the present.

**Jeffrey M. Blackburn.** Mr. Blackburn has served as Senior Vice President, Business Development, since April 2006.

**Andrew R. Jassy.** Mr. Jassy has served as CEO Amazon Web Services since April 2016, and Senior Vice President, Amazon Web Services, from April 2006 until April 2016.

**Brian T. Olsavsky.** Mr. Olsavsky has served as Senior Vice President and Chief Financial Officer since June 2015, Vice President, Finance for the Global Consumer Business from December 2011 to June 2015, and numerous financial leadership roles across Amazon with global responsibility since April 2002.

**Shelley L. Reynolds.** Ms. Reynolds has served as Vice President, Worldwide Controller, and Principal Accounting Officer since April 2007.

**Jeffrey A. Wilke.** Mr. Wilke has served as CEO Worldwide Consumer since April 2016, Senior Vice President, Consumer Business, from February 2012 until April 2016, and as Senior Vice President, North America Retail, from January 2007 until February 2012.

**David A. Zapolsky.** Mr. Zapolsky has served as Senior Vice President, General Counsel, and Secretary since May 2014, Vice President, General Counsel, and Secretary from September 2012 to May 2014, and as Vice President and Associate General Counsel for Litigation and Regulatory matters from April 2002 until September 2012.

Figure 1.2.1 Information about executives

### Information about Board of Directors:

#### Board of Directors

| Name                   | Age | Position   |
|------------------------|-----|--|
| Jeffrey P. Bezos       | 56  | President, Chief Executive Officer, and Chairman of the Board                |
| Rosalind G. Brewer     | 57  | Group President, Americas and Chief Operating Officer, Starbucks Corporation |
| Jamie S. Gorelick      | 69  | Partner, Wilmer Cutler Pickering Hale and Dorr LLP                           |
| Daniel P. Huttenlocher | 61  | Dean, MIT Schwarzman College of Computing                                    |
| Judith A. McGrath      | 67  | Senior Advisor, Astronauts Wanted * No experience necessary                  |
| Indra K. Nooyi         | 64  | Former Chief Executive Officer, PepsiCo, Inc.                                |
| Jonathan J. Rubinstein | 63  | Former co-CEO, Bridgewater Associates, LP                                    |
| Thomas O. Ryder        | 75  | Retired, Former Chairman, Reader’s Digest Association, Inc.                  |
| Patricia Q. Stonesifer | 63  | Former President and Chief Executive Officer, Martha’s Table                 |
| Wendell P. Weeks       | 60  | Chief Executive Officer, Corning Incorporated                                |

Figure 1.2.2 Information about Board of Directors

### **1.3 OBJECTIVE OF THE STUDY**

#### **Objective of Research:**

- To Appraise Quantitative Analysis by applying <sup>61</sup> Discounted Cash Flow Valuation Model to Ascertain <sup>27</sup> Intrinsic Value of Amazon's Stock.
- To Explore Sensitivity Analysis in Excel to check dependence of <sup>27</sup> Intrinsic value of Amazon's Stock on 2 Parameters i.e. Exit Multiple & Discount Rate.
- To Assess Qualitative Analysis of Amazon's Management in order to ascertain its strength, integrity, credibility and fairness.
- To Highlight importance of Qualitative Analysis of a Stock: 'Why Qualitative Analysis is as important as Quantitative Analysis.'
- To Accord a Buy/Sell/Hold Rating on Amazon's Stock.

## Chapter-2

### LITERATURE REVIEW

#### Primary Focus of Research:

Stock Valuation is often described as an Art as well as a Science, by various Academicians & Analysts all over the world.

The Following research deals with various Methodologies through which stocks are be valued by various Research Analysts & Industry Experts all over the world.

And, then One of the Most accepted & Industry Relevant methods i.e. <sup>19</sup> Discounted Cash Flow Method would be chosen to value the stock of, world's most exciting Share: "Amazon Inc."

Various Research Papers on Equity Valuation have been Studied & then, Most Industry Relevant Method has been ascertained.

#### Types of Stock Valuation Metrics/Models:

There are 3 Types of Valuation Models:

- 2 Stage Discounted Cash Flow Model
- Dividend Discount Model/Gordon Growth Model
- Excess Returns Model

#### Secondary Focus which Research:

The following research also deals with following topics such as:

- Emergence of use of machine & deep learning in Stock Price Predictions.
- Emergence of Robo-Advisors in Financial Investment Industry.
- Is COVID-19 a boon or bane on Amazon's Stock Price.

This chapter will deal with a literature review on Stock Valuation Metrics/Models. A Study of Different Valuation for Stocks via different Research Models has been read & discussed further.

✚ Research Papers Read to Understand Stock Valuation (Primary Focus):

26

**2.1 A Synthesis of Equity Valuation Techniques and the Terminal Value Calculation for the Dividend Discount Model (Stephan H. Penman, 1998):**

The paper spreads out elective value valuation models that include estimating for limited periods and shows how they are identified with one another. It contrasts profit limiting models, limited income models, and "remaining pay" models dependent on accumulation bookkeeping.

It shows that a few models that are evidently unique yield a similar valuation. It gives the general type of the terminal worth estimation in these models and shows how this computation serves to address blunders in the model. It likewise shows that all models can be deciphered as giving a specific determination of the terminal incentive for the profit markdown model.

**A. Two-Stage discounted cash flow Model:** Appropriate for non-monetary organizations that don't really develop at a consistent rate after some time. They will in general be high-development at first, and become stable following a few years.

Two counts are performed 2-phase DCF Model:

First Stage/High Growth: Market appraisals of next 10 years of turned free income are taken. (The development rate is diminished every year, until, it arrives at since a long time ago run stable development)

Second Stage/Stable Growth: Calculated utilizing Gordon-Growth formulae.

The entirety of Future Cash streams is taken and, at that point limited to acquire Present Value.

=The Discounted estimation of future incomes/Shares on issue

= Value/Share

**B. Dividend-Discount Model/Gordon Growth Model:** Since profits are a type of incomes which are straightforwardly come back to investors, it very well may be utilized to decide how much an offer worth will be worth to an investor who will receive the reward of these future profit installments. The Gordon Growth model is utilized to limit an organization's profit installments after some time, with the suspicion that profits will keep on developing at a specific rate until the end of time.

Two Conditions for Dividend Discount Model:

1. Relevant on all organizations, which pays significant extent of income as profits.
2. Adequate Data isn't Available.



60  
Calculation of Dividend-Discout Model:

$$P = D / (r - g)$$

Where, P= Intrinsic value 45

D= Expected dividend/share

r=Discount rate\Rate of Return

g= Growth rate

**C. Excess>Returns Model:** Abundance Returns strategy is more qualified to figure the inborn estimation of budgetary organizations than the conventional limited incomes model.

Two conditions for abundance brings model back:

1. Material on Financial stocks: Insurance or, Banks.
2. Adequate Data is Available.

7  
Calculation of Excess-returns Model:

**Excess return**= (Return on equity- Cost of equity) \* (Book value of equity)

7  
**Terminal value** = Excess return/ Cost of Equity-Expected growth rate

7  
**Company Valuation**= Book value of equity + Present value of Terminal Value.

**Value per Share**= Company valuation/ Shares outstanding

## 12 **(2.2) The Validity of Company Valuation Using Discounted Cash Flow Methods (Florian Steiger, 2008):**

68  
The paper talked about Discounted cash flow (DCF) valuation model in lengths. &, Talks about various Strengths of the model & Why the Model is considered most favorite in the whole Analyst community but, also talks about weaknesses of the model at a stretch as well.

Weaknesses that arises from various assumptions that revolves around the model. Any changes can reduce valuation of stocks being evaluated. &, at the last, scenario analysis was discussed to describe dependency of the stock valuation on 2 metrics.

The same study has been having been adopted while practically implying DCF valuation methods on stock valuation of Amazon & Scenario Analysis has been used to see implication of 2 factors (Discount Rate & Exit Multiple) on Stock Price.

➤ Applicability of Various Stock Valuation Models in Indian Context:

| S.no. | Company Name            | Industry                 | Valuation Model (Used) |
|-------|-------------------------|--------------------------|------------------------|
| 1     | Adani Ports             | Services                 | Two Stage FCF          |
| 2     | Asian Paints            | Consumer Goods           | Two Stage FCF          |
| 3     | Axis Bank               | Financial Services       | Excess Returns         |
| 4     | Bajaj Auto Ltd.         | Automobile               | Two Stage FCF          |
| 5     | Bajaj Finance           | Financial Services       | Excess Returns         |
| 6     | Bajaj Finserv           | Financial Services       | Excess Returns         |
| 7     | BPCL                    | Energy                   | Dividend Discount      |
| 8     | Bharti Airtel           | Telecom                  | Two Stage FCF          |
| 9     | Bharti Infratel         | Telecom                  | Two Stage FCF          |
| 10    | Britannia Industries    | Consumer Goods           | Two Stage FCF          |
| 11    | Cipla Ltd.              | Pharma                   | Two Stage FCF          |
| 12    | Coal India Ltd.         | Metals                   | Two Stage FCF          |
| 13    | Dr. Reddy's Labs Ltd.   | Pharma                   | Two Stage FCF          |
| 14    | Eicher Motors           | Automobile               | Two Stage FCF          |
| 15    | GAIL (India) Ltd.       | Energy                   | Two Stage FCF          |
| 16    | Grasim Industries Ltd.  | Cement & Cement Products | Two Stage FCF          |
| 17    | HCL Technologies        | IT                       | Two Stage FCF          |
| 18    | HDFC Bank               | Financial Services       | Excess Returns         |
| 19    | Hero Motocorp Ltd.      | Automobile               | Two Stage FCF          |
| 20    | Hindalco Ltd.           | Metals                   | Two Stage FCF          |
| 21    | HUL                     | Consumer Goods           | Two Stage FCF          |
| 22    | HDFC Bank               | Financial Services       | Excess Returns         |
| 23    | ICICI Bank Ltd.         | Financial Services       | Excess Returns         |
| 24    | ITC Ltd.                | Consumer Goods           | Two Stage FCF          |
| 25    | Indiabulls Housing Ltd. | Financial Services       | Excess Returns         |
| 26    | Indian Oil Corp. Ltd.   | Energy                   | Dividend Discount      |
| 27    | IndusInd Bank           | Financial Services       | Excess Returns         |
| 28    | Infosys Ltd.            | IT                       | Two Stage FCF          |
| 29    | JSW Steel               | Metals                   | Two Stage FCF          |
| 30    | Kotak Mahindra Bank     | Financial Services       | Excess Returns         |
| 31    | L&T                     | Construction             | Two Stage FCF          |
| 32    | M&M                     | Automobile               | Two Stage FCF          |
| 33    | Maruti Suzuki           | Automobile               | Two Stage FCF          |
| 34    | NTPC Ltd.               | Energy                   | Two Stage FCF          |
| 35    | ONGC                    | Energy                   | Two Stage FCF          |
| 36    | Power Grid Corp.        | Energy                   | Two Stage FCF          |
| 37    | Reliance Industries     | Energy                   | Two Stage FCF          |
| 38    | State Bank of India     | Financial Services       | Excess Returns         |
| 39    | Sun Pharma              | Pharma                   | Two Stage FCF          |
| 40    | TCS                     | IT                       | Two Stage FCF          |
| 41    | Tata Motors             | Automobile               | Two Stage FCF          |
| 42    | Tata Steel              | Metals                   | Two Stage FCF          |
| 43    | Tech Mahindra           | IT                       | Two Stage FCF          |
| 44    | Titan Company           | Consumer Goods           | Two Stage FCF          |
| 45    | UPL LTD.                | Fertilisers & Pesticides | Two Stage FCF          |
| 46    | Ultratech Cement        | Cement & Cement Products | Two Stage FCF          |
| 47    | Vedanta Ltd.            | Metals                   | Two Stage FCF          |
| 48    | Wipro                   | IT                       | Two Stage FCF          |
| 49    | Yes Bank                | Financial Services       | Excess Returns         |
| 50    | Zee Entertainment       | Media & Entertainment    | Excess Returns         |

Figure 2.1 Application of various valuation metrics in Indian Context

✚ Research Papers Read to Understand Emergence of use of Machine/Deep Learning on Stock Price Prediction (Secondary Focus):

**(2.3) Automated Stock Price Prediction Using Machine Learning (Moukalled, El-Hajj & Jaber, 2019):**

The paper talked about stock prices are dependent on the news reported to the stock. The news about the stock is a very important metric. Good news can have a positive impact on the stock & bad news can have a negative impact on the stock. The research paper applied various machine learning & deep learning tools on 4 very big stocks of NYSE & model was trained using historical news of last 10 years.

The machine learning algorithms were used & deep learning models were trained via using relevant news for all the relevant stocks. Various runs were implemented, Recurrent Neural Network (RNN) was judged to be most accurate for the Apple Stock.

The Following Models were described by the authors to perform the research i.e. to predict the prices of stocks:

**Deep Learning Tools:**

- 1. Artificial Neural Network (FFNN):** Also known as Feed Forward Neural Network. Artificial neural networks can be used for Tabular, Image & Text Data.

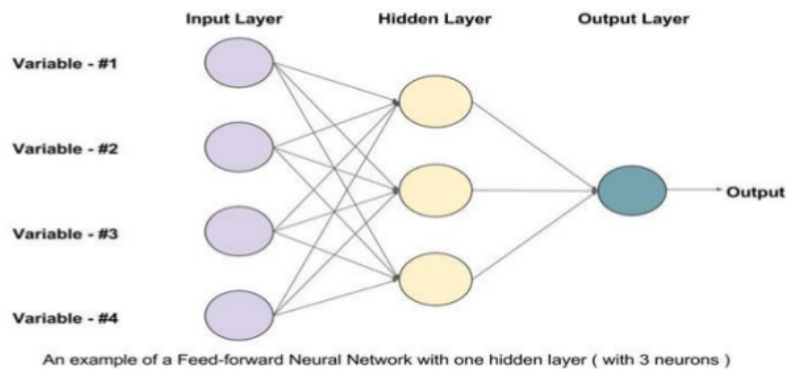


Figure 2.2 Diagram of Artificial Neural Network

2. **Recurrent Neural Network:** RNN is utilized for Recurrent connection on the Hidden State. The looping constraint helps in processing sequential information which is captured in input data. It can be useful to process: Time series data, Audio data & Text data.

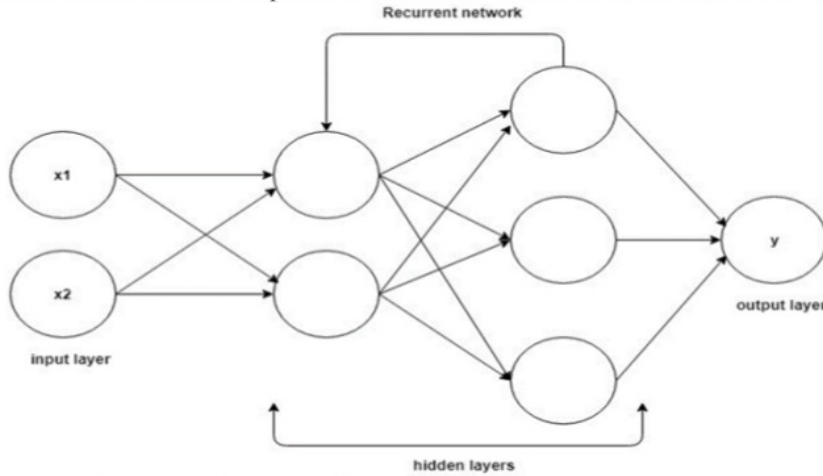


Figure 2.3 Diagram of Recurrent Neural Network

**Machine Learning Tools:**

1. **Support Vector Machines:** SVM are supervised trained learning models with algorithms that analyses regression analysis. SVM are also known as SV Networks.

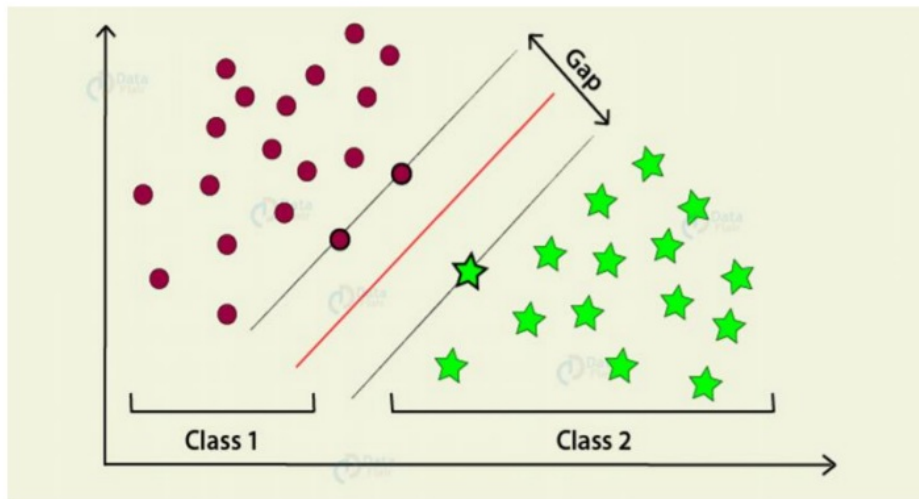


Figure 2.4 Diagram of Support Vector Machines

2. **Support Vector Regression:** SVR talks about how much fluctuations are acceptable in the model. SVR is equivalent to SVM in classification.

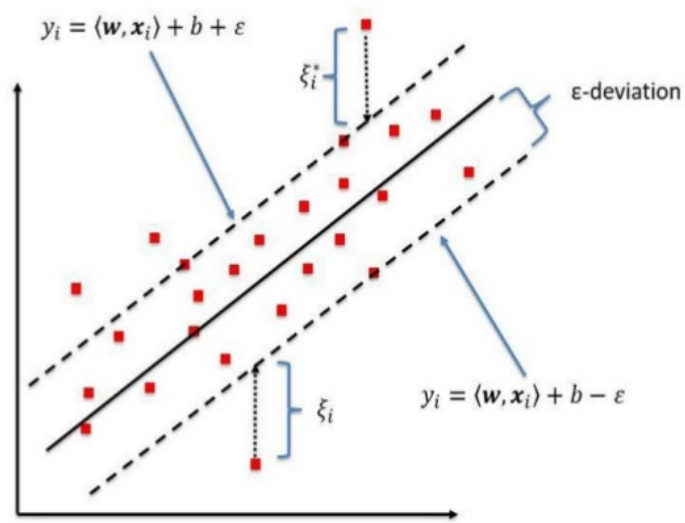



Figure 2.5 Diagram of Support Vector Regression

 Research Papers Read to Understand Emergence of use of Machine/Deep Learning on Stock Price Prediction (Secondary Focus):

**(2.4) The Emergence of Robo-Advisor (Fisch, Laboure & Turner, 2018):**

The paper talks on stretch about impact of Robo-Analysts in financial services & financial technology industry. The Robo-analysts have transformed the industry completely but, it all comes at a cost as there have been a certain obstacles & shortcomings when it comes to robo-analysts.

Robo-Advisors/Analysts are causing a disruption to the industry as people are less appreciative of technology over data & privacy concerns. Research paper also talks about robo-analysts operate. Robo-advisors ask people to fill a questionnaire asking people about their objective, goals, concerns & strategies and then plans its strategies accordingly.

What do Robot Advisers do?

Robo-counselors, or robos, are online administrations that utilize calculations to naturally perform numerous speculation undertakings done by a human budgetary guide. At first offered by new companies, robos are currently part of the set-up of administrations offered by major money related establishments, for example, Vanguard, Schwab and Fidelity. Since they are more affordable than a human counselor, they democratize access to money related exhortation. Robos can take on clients with little reserve funds since including one more individual wouldn't cost significantly more.

Joining begins with buyers rounding out definite polls online about their monetary objectives, hazard resilience and venture time spans. Robos take the data and use PC calculations to concoct a benefit distribution that meets the client's requirements. When the portfolio is made, robos likewise oversee it, doing things like rebalancing the portfolio, executing exchanges, performing charge misfortune gathering and different activities.

Robo Fees Associated, Returns Generated & Assets under Management:

Robo charges can go from zero — if the financial specialist has under \$10,000 to contribute — to as high as 0.89% of advantages under \$1 million at times. 0.25% to 0.30% of benefits is progressively average, he included. (The charge is on the expense of the speculation itself.)

Concerning execution, it's a diverse assortment with some robos showing improvement over others.

Today, robos are a quickly developing pattern yet they despite everything order a little portion of the market. In 2019, robos oversaw \$980 billion in U.S. resources out of \$81 trillion in resources under administration all around.

Robos are controlled: They need to enlist as monetary counselors, and as agents' sellers if necessary. They likewise have a guardian obligation to look for a customer's wellbeing.

➤ The Best & Oldest Robo Advisors of All-time:



Is considered as oldest robo-analyst of all time & has \$14.5 billion in AUM, making it the biggest robo-analyst in the market. Betterment charges only 0.25% to 0.40%, depending upon asset size for management. Betterment is highly efficient in asset management.

At the point when you pursue Betterment, you'll complete a short overview about your venture objectives and hazard resistance, which is then transformed into a programmed contributing arrangement. In addition, Betterment clients gain admittance to burden misfortune gathering to press out much greater gains on your portfolio.

Betterment Questionnaire asking about Investment Goals:

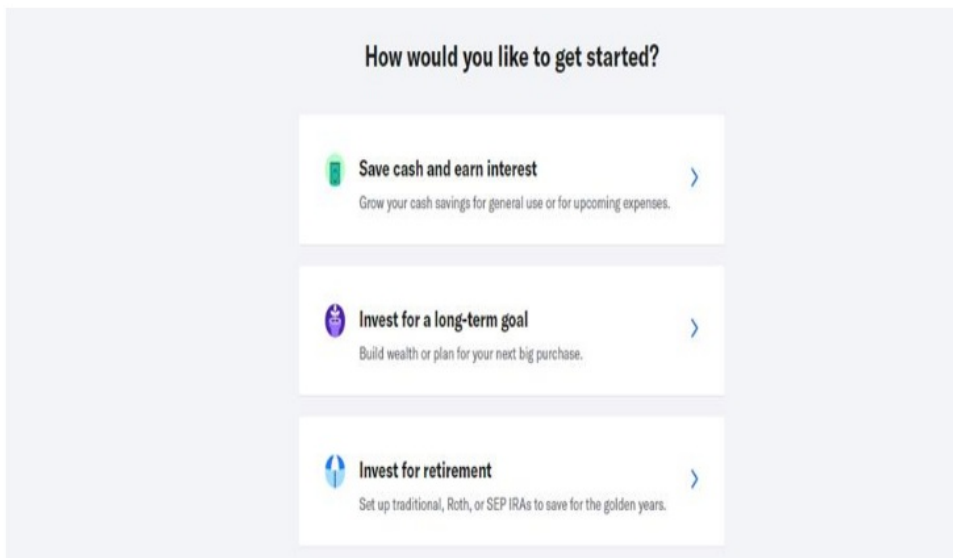


Figure 2.6 Betterment Questionnaire asking about Investment Goals

Dashboard of Betterment for an Investor:

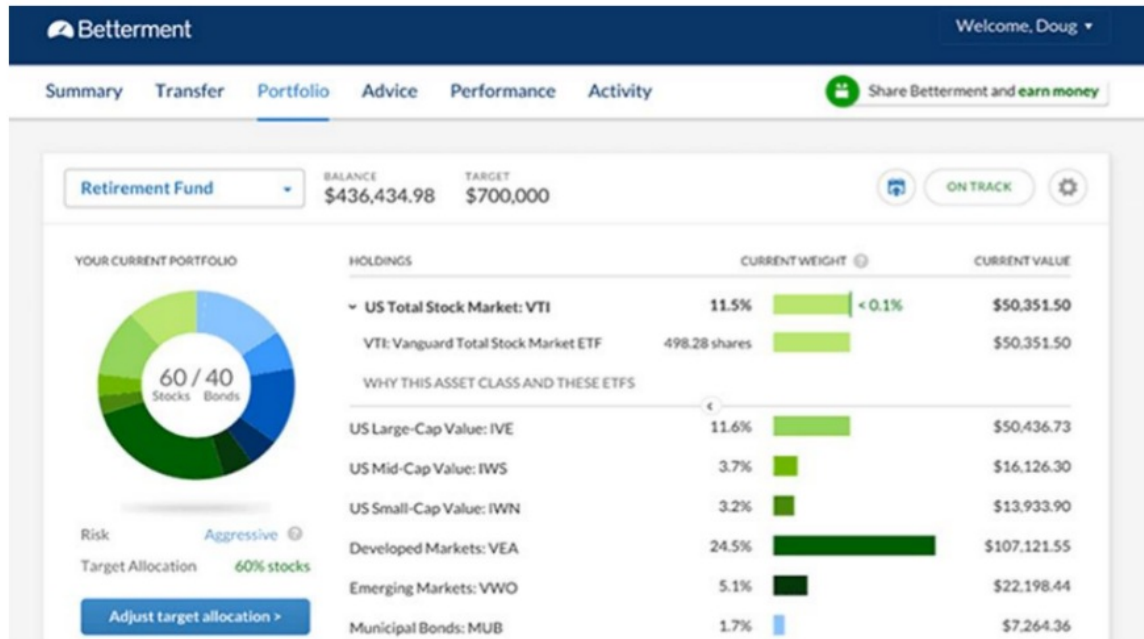


Figure 2.7 Dashboard of Betterment for an Investor



## Articles Read to Understand Impact of COVID-19 on Amazon's Stock Price (Secondary Focus):

### Background:

Brilliant Performance delivered by Amazon in **Last 1 Month** Amidst Coronavirus Pandemic Outbreak.



Figure 2.8 Returns by Amazon in last 1 Month

## **2.5) Amazon reaps \$11,000-a-second coronavirus lockdown bonanza (The Guardian, 15th April 2020):**

### Reasons:

#### 1. Positive Public Sentiment:

'Mike Pence' Vice-President of United States America wrote this tweet thanking Amazon for creating Jobs amidst Mass firings by other companies. This has created positive public sentiment.



Figure 2.9 Tweet of VP of USA praising Amazon

2. Lockdown in USA creating driving more & more demand for Amazon Prime, Amazon Online Sales & Amazon Web Services:

## Amazon reaps \$11,000-a-second coronavirus lockdown bonanza

Shares reach record high, pushing fortune of CEO and founder Jeff Bezos to \$138bn

- [Coronavirus - latest updates](#)
- [See all our coronavirus coverage](#)



Figure 2.10 News Article in Guardian Explaining Amazon's Bonanza

**(2.6) Analyst Reports of Amazon’s Forecast for FY 2020 (Yahoo Finance, 2020):**

3. Highly Optimistic Revenues, EPS & Share Price Projections by Top Brokerages:

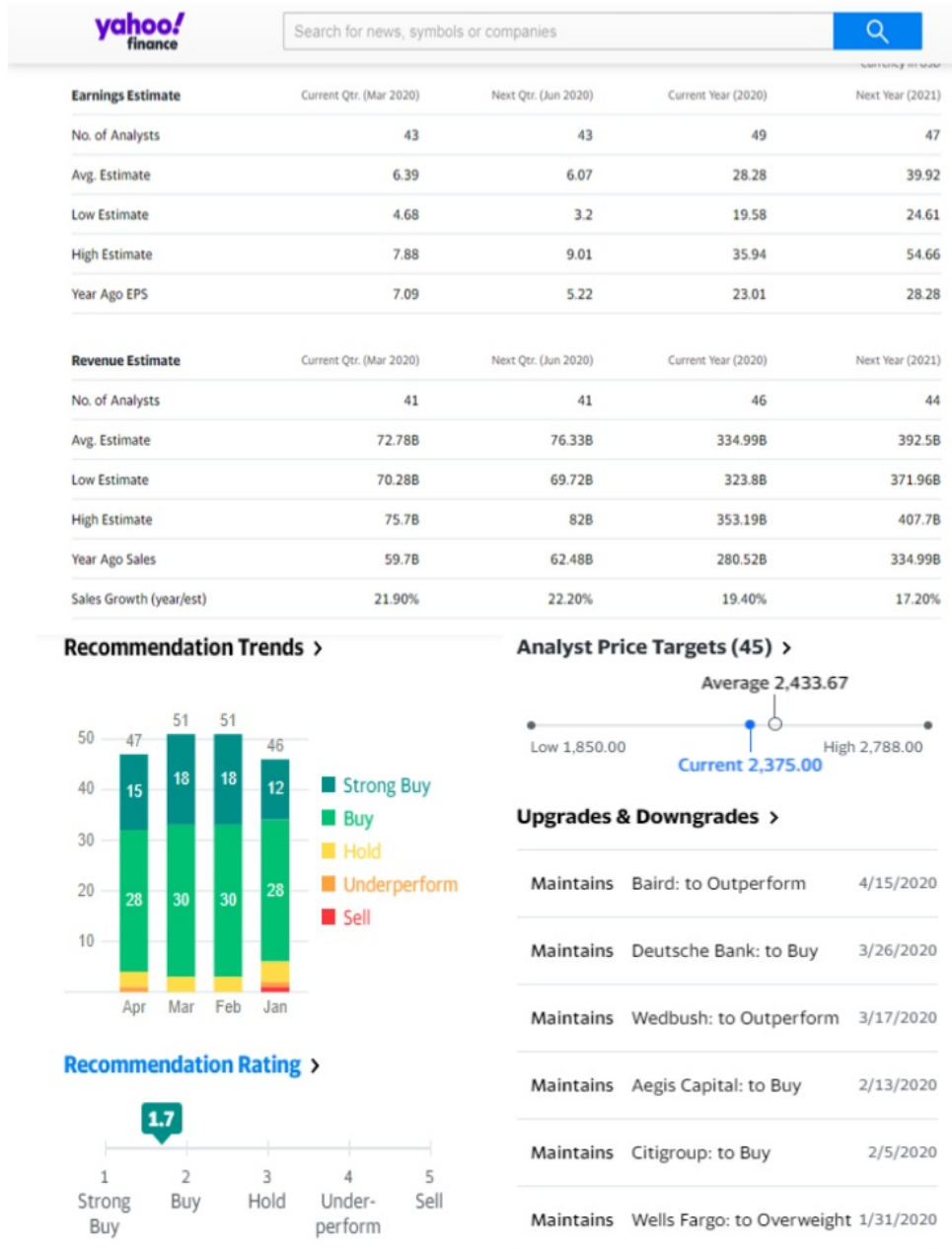


Figure 2.11 Analysts expectations regarding Amazon’s Stock

## Chapter-3

### RESEARCH METHODOLOGY

#### 3.1 Quantitative Aspects:

#### Past & Current Performance: -

##### **(I) Individual Segment Performance:**

| Historical Analysis                  | Consensus ▼    |                |                |                |                |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| (in millions, except per share data) | 2015A          | 2016A          | 2017A          | 2018A          | 2019A          |
| <b>Income Statement</b>              |                |                |                |                |                |
| <b>Segmented Revenue</b>             |                |                |                |                |                |
| Online Stores                        | 76,863         | 91,431         | 108,354        | 122,987        | 141,247        |
| Physical Stores                      |                |                | 5,798          | 17,224         | 17,192         |
| Retail Third-Party Seller Services   | 16,086         | 22,993         | 31,881         | 42,745         | 53,762         |
| Retail Subscription Services         | 4,467          | 6,394          | 9,721          | 14,168         | 19,210         |
| AWS                                  | 7,880          | 12,219         | 17,459         | 25,655         | 35,026         |
| Other                                | 1,710          | 2,950          | 4,653          | 10,108         | 14,085         |
| <b>Total Net Sales</b>               | <b>107,006</b> | <b>135,987</b> | <b>177,866</b> | <b>232,887</b> | <b>280,522</b> |

| Historical Analysis                  | Consensus ▼ |              |              |              |              |
|--------------------------------------|-------------|--------------|--------------|--------------|--------------|
| (in millions, except per share data) | 2015A       | 2016A        | 2017A        | 2018A        | 2019A        |
| <b>Segmented Revenue Growth</b>      |             |              |              |              |              |
| Online Stores                        |             | 19.0%        | 18.5%        | 13.5%        | 14.8%        |
| Physical Stores                      |             | na           | na           | 197.1%       | -0.2%        |
| Retail Third-Party Seller Services   |             | 42.9%        | 38.7%        | 34.1%        | 25.8%        |
| Retail Subscription Services         |             | 43.1%        | 52.0%        | 45.7%        | 35.6%        |
| AWS                                  |             | 55.1%        | 42.9%        | 46.9%        | 36.5%        |
| Other                                |             | 72.5%        | 57.7%        | 117.2%       | 39.3%        |
| <b>Total Net Sales</b>               |             | <b>27.1%</b> | <b>30.8%</b> | <b>30.9%</b> | <b>20.5%</b> |

Figure 3.1 Segment Performance Growth at Amazon

##### Analyst Commentary:

##### The Revenue Growth from:

- *Online stores* have been consistently at around 16-17% over the years.
- *Physical Stores* has been Quite Inconsistent, maybe can attributed to recent opening of physical stores in last 3 years.
- *Retail Third-Party Seller Services* has been declining gradually. But the analyst estimates it to remain constant in between 20-25% for next 2-3 years and then decline gradually.
- *Retail Subscription services* has been fluctuating in between 35-45%.
- *AWS (Amazon Web Services)* has been declining but a very healthy growth rate has been maintained.
- *Other* has been again fluctuating.

## (II) Income Statement Performance:

| Historical Analysis<br><i>(in millions, except per share data)</i> | Consensus      |                |                |                |                |
|--|----------------|----------------|----------------|----------------|----------------|
|  | 2015A          | 2016A          | 2017A          | 2018A          | 2019A          |
| <b>Income Statement</b>  |                |                |                |                |                |
| Net Product Sales  | 79,268         | 94,665         | 118,573        | 141,915        | 160,408        |
| Net Service Sales  | 27,738         | 41,322         | 59,293         | 90,972         | 120,114        |
| <b>Total Net Sales</b>   | <b>107,006</b> | <b>135,987</b> | <b>177,866</b> | <b>232,887</b> | <b>280,522</b> |
| Operating Expenses:  |                |                |                |                |                |
| Cost of Sales  | 71,651         | 88,265         | 111,934        | 139,156        | 165,536        |
| Fulfillment  | 13,410         | 17,619         | 25,249         | 34,027         | 40,232         |
| Marketing  | 5,254          | 7,233          | 10,069         | 13,814         | 18,878         |
| Technology and Content   | 12,540         | 16,085         | 22,620         | 28,837         | 35,931         |
| General and Administrative   | 1,747          | 2,432          | 3,674          | 4,336          | 5,203          |
| Other Operating Expense, net                                       | 171            | 167            | 214            | 296            | 201            |
| Total Operating Expenses   | 104,773        | 131,801        | 173,760        | 220,466        | 265,981        |
| <b>Operating Income</b>  | <b>2,233</b>   | <b>4,186</b>   | <b>4,106</b>   | <b>12,421</b>  | <b>14,541</b>  |
| Interest Income  | 50             | 100            | 202            | 440            | 832            |
| Interest Expense   | (459)          | (484)          | (848)          | (1,417)        | (1,600)        |
| Other Income (Expense), net  | (256)          | 90             | 346            | (183)          | 203            |
| Total Non-Operating Income (Expense)                               | (665)          | (294)          | (300)          | (1,160)        | (565)          |
| Income Before Income Taxes   | 1,568          | 3,892          | 3,806          | 11,261         | 13,976         |
| Provision for Income Taxes   | (950)          | (1,425)        | (769)          | (1,197)        | (2,374)        |
| Equity-Method Investment Activity, net of tax                      | (22)           | (96)           | (4)            | 9              | (14)           |
| <b>Net Income</b>  | <b>596</b>     | <b>2,371</b>   | <b>3,033</b>   | <b>10,073</b>  | <b>11,588</b>  |

Figure 3.2 Past Income Statement Performance at Amazon

### Analyst Commentary:

- *The Net Sales/Revenues* has ‘Almost Tripled’ over last 5 years.
- *The Total Operating Expenses* has also almost increased by the same pace as Revenues. (*Cost of Sales* has doubled; *Fulfillment Costs, Marketing costs & General Expenses* has tripled)
- *The Operating Income* Has Increased by ‘Almost 7 time’. (Incredible Growth in EBIT). (*Interest Expense* has quadrupled meaning company has Increased Debt Obligations)
- *The Net Income* has increased by ‘Almost 22 times’ over last 5 years. (*The Income tax obligations* has also increased but Tax Rate has decreased)

### (III) Balance Sheet Performance:

| Historical Analysis<br><i>(in millions, except per share data)</i> | Consensus     |               |                |                |                |
|--|---------------|---------------|----------------|----------------|----------------|
|  | 2015A         | 2016A         | 2017A          | 2018A          | 2019A          |
| <b>Balance Sheet</b>   |               |               |                |                |                |
| Current Assets:  |               |               |                |                |                |
| Cash and Cash Equivalents  | 15,890        | 19,334        | 20,522         | 31,750         | 36,092         |
| Marketable Securities  | 3,918         | 6,647         | 10,464         | 9,500          | 18,929         |
| Inventories  | 10,243        | 11,461        | 16,047         | 17,174         | 20,497         |
| Accounts Receivable, net and other                                 | 6,423         | 8,339         | 13,164         | 16,677         | 20,816         |
| Total Current Assets   | 36,474        | 45,781        | 60,197         | 75,101         | 96,334         |
| Property And Equipment, net  | 21,838        | 29,114        | 48,866         | 61,797         | 72,705         |
| Goodwill   | 3,759         | 3,784         | 13,350         | 14,548         | 14,754         |
| Other Assets   | 3,373         | 4,723         | 8,897          | 11,202         | 41,455         |
| <b>Total Assets</b>  | <b>65,444</b> | <b>83,402</b> | <b>131,310</b> | <b>162,648</b> | <b>225,248</b> |

Figure 3.3 Past Balance Sheet Performance at Amazon

#### Analyst Commentary:

- *Total Assets* has Increased Multifold or Tripled.  
(*The Cash & Cash Equivalents* has almost tripled, *Inventories* has also doubled, *The Receivables* has tripled which can be a very positive signal, *The PP&E & Goodwill* has Also Quadrupled)  
– Indicates very positive signals for the company.

| Historical Analysis<br><i>(in millions, except per share data)</i> | Consensus     |               |                |                |                |
|--|---------------|---------------|----------------|----------------|----------------|
|  | 2015A         | 2016A         | 2017A          | 2018A          | 2019A          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                        |               |               |                |                |                |
| Current Liabilities:   |               |               |                |                |                |
| Accounts Payable   | 20,397        | 25,309        | 34,616         | 38,192         | 47,183         |
| Accrued Expenses and Other   | 10,384        | 13,739        | 18,170         | 23,663         | 32,439         |
| Unearned Revenue   | 3,118         | 4,768         | 5,097          | 6,536          | 8,190          |
| Total Current Liabilities  | 33,899        | 43,816        | 57,883         | 68,391         | 87,812         |
| Long-Term Debt   | 8,235         | 7,694         | 24,743         | 33,145         | 63,205         |
| Other Long-Term Liabilities  | 9,926         | 12,607        | 20,975         | 17,563         | 12,171         |
| Total Liabilities  | 52,060        | 64,117        | 103,601        | 119,099        | 163,188        |
| Stockholders' Equity:  |               |               |                |                |                |
| Common Shares – 477 and 484  | 5             | 5             | 5              | 5              | 5              |
| Treasury Stock, at Cost  | (1,837)       | (1,837)       | (1,837)        | (1,837)        | (1,837)        |
| Additional Paid-In Capital   | 13,394        | 17,186        | 21,389         | 26,791         | 33,658         |
| Accumulated Other Comprehensive Loss                               | (723)         | (985)         | (484)          | (1,035)        | (986)          |
| Retained Earnings  | 2,545         | 4,916         | 8,636          | 19,625         | 31,220         |
| Total Stockholders' Equity   | 13,384        | 19,285        | 27,709         | 43,549         | 62,060         |
| <b>Total Liabilities and Stockholders' Equity</b>                  | <b>65,444</b> | <b>83,402</b> | <b>131,310</b> | <b>162,648</b> | <b>225,248</b> |

Figure 3.3 Past Balance Sheet Performance at Amazon

#### Analyst Commentary:

- *Total Liabilities* for the company have Tripled.  
(*Accounts Payable* has Doubled, *Accrued Expenses & Unearned Revenues* has Tripled, *Long Term Debt Obligations* has grown eight times to boost the Revenues/Sales)
- *Shareholder's Equity / Owner's Equity* have Quadrupled.  
(*Retained Earnings* has grown by 14 times, *Additional paid-in capital* has also Doubled)

## (IV) Statement of Cash Flows Performance:

| Historical Analysis<br><i>(in millions, except per share data)</i>         | Consensus     |               |               |               |               |
|--|---------------|---------------|---------------|---------------|---------------|
|  | 2015A         | 2016A         | 2017A         | 2018A         | 2019A         |
| <b>Cash Flow Statement</b>   |               |               |               |               |               |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD                             | 14,557        | 15,890        | 19,334        | 21,856        | 32,173        |
| <b>OPERATING ACTIVITIES:</b>   |               |               |               |               |               |
| Net Income   | 596           | 2,371         | 3,033         | 10,073        | 11,588        |
| Adjustments to Reconcile Net Income to Net Cash from Operating Activities: |               |               |               |               |               |
| Depreciation of Property and Equipment                                     | 6,281         | 8,116         | 11,478        | 15,341        | 21,789        |
| Stock-Based Compensation   | 2,119         | 2,975         | 4,215         | 5,418         | 6,864         |
| Other Non-Cash Operating Expense, net                                      | 486           | (106)         | (119)         | 934           | 711           |
| Changes in Operating Assets and Liabilities:                               |               |               |               |               |               |
| Inventories  | (2,187)       | (1,426)       | (3,583)       | (1,314)       | (3,278)       |
| Accounts Receivable, net and other   | (1,755)       | (3,367)       | (4,786)       | (4,615)       | (7,681)       |
| Accounts Payable   | 4,294         | 5,030         | 7,175         | 3,263         | 8,193         |
| Accrued Expenses and Other   | 913           | 1,724         | 283           | 472           | (1,383)       |
| Unearned Revenue   | 1,292         | 1,955         | 738           | 1,151         | 1,711         |
| <b>Net Cash Provided by (used in) Operating Activities</b>                 | <b>12,039</b> | <b>17,272</b> | <b>18,434</b> | <b>30,723</b> | <b>38,514</b> |

Figure 3.4 Past Cash Flow Performance at Amazon

### Analyst Commentary:

- *The Net Cash Provided by Operating Activities* has Tripled in last 5 years.  
(Can be attributed to: Tremendous Positive Increase in *Net Income/PAT*, *D&A Expenses* & *Stock based compensation (Non-cash expenses)*).

| Historical Analysis<br><i>(in millions, except per share data)</i>   | Consensus      |                |                 |                 |                 |
|--|----------------|----------------|-----------------|-----------------|-----------------|
|  | 2015A          | 2016A          | 2017A           | 2018A           | 2019A           |
| <b>INVESTING ACTIVITIES:</b>   |                |                |                 |                 |                 |
| Purchases of Property and Equipment, Including Internal-Use Software | (5,387)        | (7,804)        | (11,955)        | (13,427)        | (16,861)        |
| Proceeds from Property and Equipment Incentives                      | 798            | 1,067          | 1,897           | 2,104           | 4,172           |
| Acquisitions, net of cash acquired, and other                        | (795)          | (116)          | (13,972)        | (2,186)         | (2,461)         |
| Sales (Purchases) of Marketable Securities, net                      | (1,066)        | (3,023)        | (3,789)         | 1,140           | (9,131)         |
| <b>Net Cash Provided by (used in) Investing Activities</b>           | <b>(6,450)</b> | <b>(9,876)</b> | <b>(27,819)</b> | <b>(12,369)</b> | <b>(24,281)</b> |
| <b>FINANCING ACTIVITIES:</b>   |                |                |                 |                 |                 |
| Proceeds (Repayments) from Long-Term Debt and Other                  | (1,299)        | 267            | 14,859          | 100             | (411)           |
| Principal Repayments of Capital Lease Obligations                    | (2,462)        | (3,860)        | (4,799)         | (7,449)         | (9,628)         |
| Principal Repayments of Finance Lease Obligations                    | (121)          | (147)          | (200)           | (337)           | (27)            |
| Proceeds from Issuing Equity (Common, Treasury, Paid-in, etc)        | 0              | 0              | 0               | 0               | 0               |
| Payment of Dividends   | 0              | 0              | 0               | 0               | 0               |
| <b>Net Cash Provided by (used in) Financing Activities</b>           | <b>(3,882)</b> | <b>(3,740)</b> | <b>9,860</b>    | <b>(7,686)</b>  | <b>(10,066)</b> |
| Foreign Currency Effect on Cash and Cash Equivalents                 | (374)          | (212)          | 713             | (351)           | 70              |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>          | <b>1,333</b>   | <b>3,444</b>   | <b>1,188</b>    | <b>10,317</b>   | <b>4,237</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                      | <b>15,890</b>  | <b>19,334</b>  | <b>20,522</b>   | <b>32,173</b>   | <b>36,410</b>   |

Figure 3.4 Past Cash Flow Performance at Amazon

### Analyst Commentary:

- *The Net Cash used in Investing Activities* have Quadrupled.  
(Owing to: Tripling Increase in *Purchase of PP&E* & *Acquisitions*, 8 times Increase in *Purchase of Marketable Securities*)
- The *Net Cash used in Financing Activities* have Tripled.  
(*Capital lease Obligation payments* have increased by 4 times, *Proceeds/Repayment of Long-term debt* has been quite Uncertain)
- *The Net Increase in Cash & Cash Equivalents* has always been shown but is inconsistent.
- *The End of period Cash & Cash Equivalents* has more than Doubled – A Positive Signal.

## (V) Free Cash Flows to Firm Performance:

| Historical Analysis<br><i>(in millions, except per share data)</i> | Consensus    |               |              |               |               |
|--|--------------|---------------|--------------|---------------|---------------|
|  | 2015A        | 2016A         | 2017A        | 2018A         | 2019A         |
| <b>Free Cash Flow to Firm (FCFF)</b>                               |              |               |              |               |               |
| Operating Profit   | 2,233        | 4,186         | 4,106        | 12,421        | 14,541        |
| Less: Unlevered Taxes  | (1,353)      | (1,533)       | (830)        | (1,320)       | (2,470)       |
| <b>Net Operating Profit After Tax (NOPAT)</b>                      | <b>880</b>   | <b>2,653</b>  | <b>3,276</b> | <b>11,101</b> | <b>12,071</b> |
| Plus: Depreciation & Amortization                                  | 6,281        | 8,116         | 11,478       | 15,341        | 21,789        |
| Plus: Stock-Based Compensation                                     | 2,119        | 2,975         | 4,215        | 5,418         | 6,864         |
| Plus: Other Non-Cash Expenses                                      | 486          | (106)         | (119)        | 934           | 711           |
| Less: Cash Capex   | (4,589)      | (6,737)       | (10,058)     | (11,323)      | (12,689)      |
| Plus: Changes in Net Working Capital                               | 2,557        | 3,916         | (173)        | (1,043)       | (2,438)       |
| <b>Free Cash Flow to Firm (FCFF)</b>                               | <b>7,734</b> | <b>10,817</b> | <b>8,619</b> | <b>20,428</b> | <b>26,308</b> |

Figure 3.5 Past Free Cash Flows to Firm Performance at Amazon

### Analyst Commentary:

- *The Free Cash Flow to Firm* has increased by 4 times, which is a very positive signal for Investors.  
(*Operating Profits* have increased by 7 times, *D&A & Stock Based Compensation* (Non-cash expenses) have Tripled)



## Future Performance: -

### (I) Information about 4 Scenarios Used to Assess Future Performance:

|  | 2015A       | 2016A | 2017A | 2018A | 2019A | 2020E  | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|--|-------------|-------|-------|-------|-------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>EV:</b>                                 | \$1,468,358 |       |       |       |       |        |       |       |       |       |       |       |       |       |       |       |
| <b>Share Price:</b>                        | \$2,879     |       |       |       |       |        |       |       |       |       |       |       |       |       |       |       |
| <b>Segmented Revenue Growth</b>            |             |       |       |       |       | 15.7%  | 17.0% | 16.0% | 15.0% | 14.0% | 12.0% | 10.0% | 8.0%  | 7.0%  | 6.0%  | 5.0%  |
| Online Stores                              |             |       |       |       |       | 214.2% | 15.0% | 9.0%  | 9.4%  | 9.4%  | 10.5% | 11.2% | 10.2% | 10.0% | 9.0%  | 8.0%  |
| Physical Stores                            |             |       |       |       |       | 30.0%  | 30.0% | 25.0% | 20.0% | 20.0% | 15.0% | 12.0% | 10.0% | 8.0%  | 6.0%  | 5.0%  |
| Retail Third-Party Seller Services         |             |       |       |       |       | 40.0%  | 40.0% | 35.0% | 30.0% | 20.0% | 15.0% | 10.0% | 8.0%  | 6.0%  | 5.0%  | 5.0%  |
| Retail Subscription Services               |             |       |       |       |       | 44.4%  | 40.0% | 35.0% | 25.0% | 20.0% | 15.0% | 10.0% | 12.0% | 12.0% | 10.0% | 8.0%  |
| AWS  |             |       |       |       |       | 50.0%  | 50.0% | 50.0% | 45.0% | 35.0% | 25.0% | 15.0% | 10.0% | 8.0%  | 7.0%  | 6.0%  |
| Other                                      |             |       |       |       |       |        |       |       |       |       |       |       |       |       |       |       |
| <b>Total Net Sales</b>                     |             |       |       |       |       |        |       |       |       |       |       |       |       |       |       |       |
| <b>Expenses</b>                            |             |       |       |       |       |        |       |       |       |       |       |       |       |       |       |       |
| Cost of Sales                              |             |       |       |       |       | 61.0%  | 61.0% | 59.5% | 59.5% | 59.0% | 59.0% | 59.5% | 59.5% | 59.0% | 59.0% | 58.5% |
| Fulfillment                                |             |       |       |       |       | 14.6%  | 13.1% | 13.4% | 13.5% | 13.9% | 13.7% | 13.8% | 16.0% | 16.0% | 16.0% | 16.0% |
| Marketing                                  |             |       |       |       |       | 5.8%   | 6.0%  | 6.1%  | 6.2%  | 6.2%  | 6.2%  | 6.1%  | 6.1%  | 6.1%  | 6.0%  | 6.0%  |
| Technology and Content                     |             |       |       |       |       | 12.7%  | 12.7% | 12.7% | 12.7% | 12.7% | 12.5% | 12.5% | 12.3% | 12.3% | 12.0% | 12.0% |
| General and Administrative                 |             |       |       |       |       | 2.1%   | 2.1%  | 2.1%  | 2.0%  | 2.0%  | 2.0%  | 1.9%  | 1.9%  | 1.9%  | 1.9%  | 1.9%  |
| Other Operating Expense, net               |             |       |       |       |       | 0.1%   | 0.1%  | 0.1%  | 0.1%  | 0.1%  | 0.1%  | 0.1%  | 0.1%  | 0.1%  | 0.1%  | 0.1%  |
| <b>Total Operating Expenses</b>            |             |       |       |       |       | 96.4%  | 97.8% | 95.9% | 96.1% | 95.7% | 95.3% | 96.1% | 96.1% | 95.3% | 95.1% | 94.5% |
| Stock-Based Compensation (SBC) (% of SG&A) |             |       |       |       |       | 6.8%   | 6.8%  | 6.8%  | 6.8%  | 6.8%  | 6.8%  | 6.8%  | 6.8%  | 6.8%  | 6.8%  | 6.8%  |
| Tax Rate                                   |             |       |       |       |       | 20.0%  | 20.0% | 22.5% | 22.5% | 22.5% | 22.5% | 22.5% | 22.5% | 22.5% | 22.5% | 22.5% |
| Interest Income Rate (Opening Balance)     |             |       |       |       |       | 1.0%   | 1.0%  | 1.0%  | 1.0%  | 1.0%  | 1.0%  | 1.0%  | 1.0%  | 1.0%  | 1.0%  | 1.0%  |
| Interest Expense Rate (Average Debt)       |             |       |       |       |       | 3.5%   | 3.5%  | 3.5%  | 3.5%  | 3.5%  | 3.5%  | 3.5%  | 3.5%  | 3.5%  | 3.5%  | 3.5%  |
| <b>Balance Sheet</b>                       |             |       |       |       |       |        |       |       |       |       |       |       |       |       |       |       |
| Inventory Days                             |             |       |       |       |       |        |       |       |       |       |       |       |       |       |       |       |

Figure 3.6 Information about 4 Scenarios Used to Assess Future Performance

The CHOOSE Function has been used to run a ‘Live Case’, which runs the desired case out of 4 cases:

Which are,

| Name      | Description | Number | Live Case ->       |
|-----------|-------------|--------|--------------------|
| Consensus |             | 1      | Number: 1          |
| Bull      |             | 2      | NPV \$/Sh: \$2,879 |
| Bear      |             | 3      |                    |
| Other     |             | 4      |                    |

Figure 3.7 Consensus Case

- **Consensus Case:** Talks about the Normal/Base case where forecasts have been according to the past performance.

The Intrinsic Share Price has been: \$2,879 & Enterprise value is: \$1.468 Trillion.

**Consensus Case has been considered while calculating the Future Performance & Valuation.**

| Historical Analysis |             | 2015A 2016A 2017A 2018A 2019A 2020E 2021E 2022E 2023E 2024E 2025E 2026E 2027E 2028E 2029E 2030E |            |            |            |            |            |            |            |            |            |                   |            |            |            |            |
|---------------------|-------------|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------------|------------|------------|------------|------------|
| EV: \$2,153,200     |             | Share Price: \$4,238  |            |            |            |            |            |            |            |            |            |                   |            |            |            |            |
| Historical Analysis |             |   |            |            |            |            |            |            |            |            |            |                   |            |            |            |            |
| Time Periods        |             |   |            |            |            |            |            |            |            |            |            |                   |            |            |            |            |
| BOP                 | 1/1/2015    | 1/1/2016  | 1/1/2017   | 1/1/2018   | 1/1/2019   | 1/1/2020   | 1/1/2021   | 1/1/2022   | 1/1/2023   | 1/1/2024   | 1/1/2025   | 1/1/2026          | 1/1/2027   | 1/1/2028   | 1/1/2029   | 1/1/2030   |
| EOP                 | 12/31/2015  | 12/31/2016  | 12/31/2017 | 12/31/2018 | 12/31/2019 | 12/31/2020 | 12/31/2021 | 12/31/2022 | 12/31/2023 | 12/31/2024 | 12/31/2025 | 12/31/2026        | 12/31/2027 | 12/31/2028 | 12/31/2029 | 12/31/2030 |
| Days                | 365         | 366   | 365        | 365        | 365        | 366        | 365        | 365        | 365        | 366        | 365        | 365               | 365        | 366        | 365        | 365        |
| Case Selection      |             |   |            |            |            |            |            |            |            |            |            |                   |            |            |            |            |
| Name                | Description | Number  |            |            |            |            |            |            |            |            |            | Live Case ->      |            |            |            |            |
| Consensus           |             | 1   |            |            |            |            |            |            |            |            |            | Number 2          |            |            |            |            |
| Bull                |             | 2   |            |            |            |            |            |            |            |            |            | NPV \$/Sh \$4,238 |            |            |            |            |
| Bear                |             | 3   |            |            |            |            |            |            |            |            |            |                   |            |            |            |            |
| Other               |             | 4   |            |            |            |            |            |            |            |            |            |                   |            |            |            |            |

Figure 3.8 Bull Case

- **Bull Case:** Talks about the Optimistic Case where analysts are overoptimistic in forecasts. Hence, Inflated Equity Value & Intrinsic Share Price.  
The Intrinsic Share Price has been: \$4,238 & Enterprise value is: \$2.153 Trillion.

| Historical Analysis |             | 2015A 2016A 2017A 2018A 2019A 2020E 2021E 2022E 2023E 2024E 2025E 2026E 2027E 2028E 2029E 2030E |            |            |            |            |            |            |            |            |            |                   |            |            |            |            |
|---------------------|-------------|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------------|------------|------------|------------|------------|
| EV: \$1,070,280     |             | Share Price: \$2,089  |            |            |            |            |            |            |            |            |            |                   |            |            |            |            |
| Historical Analysis |             |   |            |            |            |            |            |            |            |            |            |                   |            |            |            |            |
| Time Periods        |             |   |            |            |            |            |            |            |            |            |            |                   |            |            |            |            |
| BOP                 | 1/1/2015    | 1/1/2016  | 1/1/2017   | 1/1/2018   | 1/1/2019   | 1/1/2020   | 1/1/2021   | 1/1/2022   | 1/1/2023   | 1/1/2024   | 1/1/2025   | 1/1/2026          | 1/1/2027   | 1/1/2028   | 1/1/2029   | 1/1/2030   |
| EOP                 | 12/31/2015  | 12/31/2016  | 12/31/2017 | 12/31/2018 | 12/31/2019 | 12/31/2020 | 12/31/2021 | 12/31/2022 | 12/31/2023 | 12/31/2024 | 12/31/2025 | 12/31/2026        | 12/31/2027 | 12/31/2028 | 12/31/2029 | 12/31/2030 |
| Days                | 365         | 366   | 365        | 365        | 365        | 366        | 365        | 365        | 365        | 366        | 365        | 365               | 365        | 366        | 365        | 365        |
| Case Selection      |             |   |            |            |            |            |            |            |            |            |            |                   |            |            |            |            |
| Name                | Description | Number  |            |            |            |            |            |            |            |            |            | Live Case ->      |            |            |            |            |
| Consensus           |             | 1   |            |            |            |            |            |            |            |            |            | Number 3          |            |            |            |            |
| Bull                |             | 2   |            |            |            |            |            |            |            |            |            | NPV \$/Sh \$2,089 |            |            |            |            |
| Bear                |             | 3   |            |            |            |            |            |            |            |            |            |                   |            |            |            |            |
| Other               |             | 4   |            |            |            |            |            |            |            |            |            |                   |            |            |            |            |

Figure 3.9 Bear Case

- **Bear Case:** Talks about the Pessimistic Case where analysts are pessimistic in forecasts. Hence, Deflated Equity Value & Intrinsic Share Price.  
The Intrinsic Share Price has been: \$2,089 & Enterprise value is: \$1.07 Trillion.

| Historical Analysis |             | 2015A 2016A 2017A 2018A 2019A 2020E 2021E 2022E 2023E 2024E 2025E 2026E 2027E 2028E 2029E 2030E |            |            |            |            |            |            |            |            |            |                 |            |            |            |            |
|---------------------|-------------|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|-----------------|------------|------------|------------|------------|
| EV: \$516,656       |             | Share Price: \$990  |            |            |            |            |            |            |            |            |            |                 |            |            |            |            |
| Historical Analysis |             |   |            |            |            |            |            |            |            |            |            |                 |            |            |            |            |
| Time Periods        |             |   |            |            |            |            |            |            |            |            |            |                 |            |            |            |            |
| BOP                 | 1/1/2015    | 1/1/2016  | 1/1/2017   | 1/1/2018   | 1/1/2019   | 1/1/2020   | 1/1/2021   | 1/1/2022   | 1/1/2023   | 1/1/2024   | 1/1/2025   | 1/1/2026        | 1/1/2027   | 1/1/2028   | 1/1/2029   | 1/1/2030   |
| EOP                 | 12/31/2015  | 12/31/2016  | 12/31/2017 | 12/31/2018 | 12/31/2019 | 12/31/2020 | 12/31/2021 | 12/31/2022 | 12/31/2023 | 12/31/2024 | 12/31/2025 | 12/31/2026      | 12/31/2027 | 12/31/2028 | 12/31/2029 | 12/31/2030 |
| Days                | 365         | 366   | 365        | 365        | 365        | 366        | 365        | 365        | 365        | 366        | 365        | 365             | 365        | 366        | 365        | 365        |
| Case Selection      |             |   |            |            |            |            |            |            |            |            |            |                 |            |            |            |            |
| Name                | Description | Number  |            |            |            |            |            |            |            |            |            | Live Case ->    |            |            |            |            |
| Consensus           |             | 1   |            |            |            |            |            |            |            |            |            | Number 4        |            |            |            |            |
| Bull                |             | 2   |            |            |            |            |            |            |            |            |            | NPV \$/Sh \$990 |            |            |            |            |
| Bear                |             | 3   |            |            |            |            |            |            |            |            |            |                 |            |            |            |            |
| Other               |             | 4   |            |            |            |            |            |            |            |            |            |                 |            |            |            |            |

Figure 3.10 Other Case

- **Other Case:** Talks about the Dismal Case where analysts are over pessimistic in forecasts. Hence, Highly Deflated Equity Value & Intrinsic Share Price.  
The Intrinsic Share Price has been: \$990 & Enterprise value is: \$516 Billion.

## (II) Forecasted Individual Segment Performance:

| Historical Analysis                  |  | EV: \$1,468,358 |                |                |                |                |                |                  |                  |                  |                  | Share Price: \$2,879 |             |
|--------------------------------------|--|-----------------|----------------|----------------|----------------|----------------|----------------|------------------|------------------|------------------|------------------|----------------------|-------------|
| (in millions, except per share data) |  | 2020E           | 2021E          | 2022E          | 2023E          | 2024E          | 2025E          | 2026E            | 2027E            | 2028E            | 2029E            | 2030E                |             |
| <b>Segmented Revenue</b>             |  |                 |                |                |                |                |                |                  |                  |                  |                  |                      |             |
| Online Stores                        |  | 163,370         | 191,143        | 221,726        | 254,985        | 290,682        | 325,564        | 358,121          | 386,770          | 413,844          | 438,675          | 460,609              | 1P          |
| Physical Stores                      |  | 17,192          | 17,192         | 17,192         | 17,192         | 17,192         | 17,192         | 17,192           | 17,192           | 17,192           | 17,192           | 17,192               | 1P          |
| Retail Third-Party Seller Services   |  | 69,891          | 90,858         | 113,572        | 136,287        | 163,544        | 188,076        | 210,645          | 231,709          | 250,246          | 265,261          | 278,524              | 3P          |
| Retail Subscription Services         |  | 26,894          | 37,652         | 50,830         | 66,079         | 79,294         | 91,188         | 100,307          | 108,332          | 114,832          | 120,573          | 126,602              | Subs        |
| AWS                                  |  | 50,585          | 70,819         | 95,606         | 119,507        | 143,408        | 164,920        | 189,657          | 212,416          | 237,906          | 261,697          | 282,633              | Cloud       |
| Other                                |  | 21,128          | 31,691         | 47,537         | 68,928         | 93,053         | 116,317        | 133,764          | 147,141          | 158,912          | 170,036          | 180,238              | Advertising |
| <b>Total Net Sales</b>               |  | <b>349,059</b>  | <b>439,354</b> | <b>546,462</b> | <b>662,977</b> | <b>787,174</b> | <b>903,257</b> | <b>1,009,686</b> | <b>1,103,560</b> | <b>1,192,932</b> | <b>1,273,434</b> | <b>1,345,797</b>     |             |

| Historical Analysis                  |  | EV: \$1,468,358 |              |              |              |              |              |              |             |             |             | Share Price: \$2,879 |  |
|--------------------------------------|--|-----------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|-------------|-------------|----------------------|--|
| (in millions, except per share data) |  | 2020E           | 2021E        | 2022E        | 2023E        | 2024E        | 2025E        | 2026E        | 2027E       | 2028E       | 2029E       | 2030E                |  |
| <b>Segmented Revenue Growth</b>      |  |                 |              |              |              |              |              |              |             |             |             |                      |  |
| Online Stores                        |  | 15.7%           | 17.0%        | 16.0%        | 15.0%        | 14.0%        | 12.0%        | 10.0%        | 8.0%        | 7.0%        | 6.0%        | 5.0%                 |  |
| Physical Stores                      |  | 214.2%          | 15.0%        | 9.0%         | 9.4%         | 9.4%         | 10.5%        | 11.2%        | 10.2%       | 10.0%       | 9.0%        | 8.0%                 |  |
| Retail Third-Party Seller Services   |  | 30.0%           | 30.0%        | 25.0%        | 20.0%        | 20.0%        | 15.0%        | 12.0%        | 10.0%       | 8.0%        | 6.0%        | 5.0%                 |  |
| Retail Subscription Services         |  | 40.0%           | 40.0%        | 35.0%        | 30.0%        | 20.0%        | 15.0%        | 10.0%        | 8.0%        | 6.0%        | 5.0%        | 5.0%                 |  |
| AWS                                  |  | 44.4%           | 40.0%        | 35.0%        | 25.0%        | 20.0%        | 15.0%        | 15.0%        | 12.0%       | 12.0%       | 10.0%       | 8.0%                 |  |
| Other                                |  | 50.0%           | 50.0%        | 50.0%        | 45.0%        | 35.0%        | 25.0%        | 15.0%        | 10.0%       | 8.0%        | 7.0%        | 6.0%                 |  |
| <b>Total Net Sales</b>               |  | <b>24.4%</b>    | <b>25.9%</b> | <b>24.4%</b> | <b>21.3%</b> | <b>18.7%</b> | <b>14.7%</b> | <b>11.8%</b> | <b>9.3%</b> | <b>8.1%</b> | <b>6.7%</b> | <b>5.7%</b>          |  |

Figure 3.11 Assumptions about forecasted Segment Performance

### Analyst Commentary:

#### The Segment Revenue Growth Forecasted for:

- *Online stores* have been taken at around 16-17% in first few years and, then reducing gradually over the years and, sales from online stores have tripled in next 10 years.
- *Physical Stores* has been taken at Quite Inconsistent pace in first few years, then normalizing the growth rate over the years.
- *Retail Third-Party Seller Services* has been taken at around 25-30% in first few years and, then reducing gradually over the years and, revenue from 3P have Quadrupled in next 10 years.
- *Retail Subscription services* has been taken at around 30-40% and, then reducing gradually over the years and, revenue from 3P have increased by 5 times in next 10 years.
- *AWS (Amazon Web Services)* has been taken in between 35-45% in first few years and, then reducing gradually over the years and, revenue from AWS have increased by almost 6 times in next 10 years.
- *Other* has been taken in between 35-50% and, then reducing gradually over the years and, revenue from AWS have increased by almost 9 times in next 10 years.

### (III) Forecasted Income Statement Performance:

| Historical Analysis<br><i>(in millions, except per share data)</i> | EV: \$1,468,358 |                |                |                |                |                |                  |                  |                  |                  | Share Price: \$2,879 |       |       |       |       |       |       |       |       |       |       |       |  |
|--|-----------------|----------------|----------------|----------------|----------------|----------------|------------------|------------------|------------------|------------------|----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--|
|  | 2020E           | 2021E          | 2022E          | 2023E          | 2024E          | 2025E          | 2026E            | 2027E            | 2028E            | 2029E            | 2030E                | 2020E | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |  |
| <b>Income Statement</b>  |                 |                |                |                |                |                |                  |                  |                  |                  |                      |       |       |       |       |       |       |       |       |       |       |       |  |
| Net Product Sales  | 201,689         | 240,026        | 286,455        | 341,105        | 400,928        | 459,073        | 509,077          | 551,103          | 589,948          | 625,903          | 658,039              |       |       |       |       |       |       |       |       |       |       |       |  |
| Net Service Sales  | 147,370         | 199,328        | 260,007        | 321,872        | 386,247        | 444,184        | 500,609          | 552,457          | 602,984          | 647,531          | 687,758              |       |       |       |       |       |       |       |       |       |       |       |  |
| <b>Total Net Sales</b>   | <b>349,059</b>  | <b>439,354</b> | <b>546,462</b> | <b>662,977</b> | <b>787,174</b> | <b>903,257</b> | <b>1,009,686</b> | <b>1,103,560</b> | <b>1,192,932</b> | <b>1,273,434</b> | <b>1,345,797</b>     |       |       |       |       |       |       |       |       |       |       |       |  |
| Operating Expenses:  |                 |                |                |                |                |                |                  |                  |                  |                  |                      |       |       |       |       |       |       |       |       |       |       |       |  |
| Cost of Sales  | 213,079         | 268,198        | 325,145        | 394,471        | 464,433        | 532,921        | 600,763          | 656,618          | 703,830          | 751,326          | 787,291              |       |       |       |       |       |       |       |       |       |       |       |  |
| Fulfillment  | 51,037          | 66,167         | 83,943         | 102,761        | 122,799        | 141,811        | 159,530          | 176,570          | 190,869          | 203,749          | 215,328              |       |       |       |       |       |       |       |       |       |       |       |  |
| Marketing  | 20,353          | 26,387         | 33,476         | 41,425         | 49,186         | 56,439         | 63,089           | 67,317           | 72,769           | 77,679           | 80,748               |       |       |       |       |       |       |       |       |       |       |       |  |
| Technology and Content   | 44,391          | 55,875         | 69,496         | 84,314         | 100,108        | 112,907        | 126,211          | 137,945          | 146,134          | 152,812          | 161,496              |       |       |       |       |       |       |       |       |       |       |       |  |
| General and Administrative   | 7,210           | 9,075          | 11,288         | 13,260         | 15,743         | 18,065         | 20,194           | 20,968           | 22,666           | 24,195           | 25,570               |       |       |       |       |       |       |       |       |       |       |       |  |
| Other Operating Expense, net                                       | 399             | 477            | 564            | 650            | 733            | 799            | 848              | 881              | 905              | 956              | 1,020                |       |       |       |       |       |       |       |       |       |       |       |  |
| <b>Total Operating Expenses</b>                                    | <b>336,469</b>  | <b>426,179</b> | <b>523,911</b> | <b>636,881</b> | <b>753,003</b> | <b>862,943</b> | <b>970,636</b>   | <b>1,060,299</b> | <b>1,137,173</b> | <b>1,210,728</b> | <b>1,271,453</b>     |       |       |       |       |       |       |       |       |       |       |       |  |
| <b>Operating Income</b>  | <b>12,590</b>   | <b>13,176</b>  | <b>22,551</b>  | <b>26,906</b>  | <b>34,172</b>  | <b>40,314</b>  | <b>39,051</b>    | <b>43,262</b>    | <b>55,760</b>    | <b>62,706</b>    | <b>74,344</b>        |       |       |       |       |       |       |       |       |       |       |       |  |
| Interest Income  | 364             | (7)            | 483            | 811            | 1,265          | 1,785          | 2,364            | 3,003            | 3,718            | 4,516            | 5,443                |       |       |       |       |       |       |       |       |       |       |       |  |
| Interest Expense   | (1,638)         | (1,638)        | (1,638)        | (1,638)        | (1,638)        | (1,638)        | (1,638)          | (1,638)          | (1,638)          | (1,638)          | (1,638)              |       |       |       |       |       |       |       |       |       |       |       |  |
| Other Income (Expense), net  |                 |                |                |                |                |                |                  |                  |                  |                  |                      |       |       |       |       |       |       |       |       |       |       |       |  |
| <b>Total Non-Operating Income (Expense)</b>                        | <b>(1,274)</b>  | <b>(1,645)</b> | <b>(1,155)</b> | <b>(827)</b>   | <b>(374)</b>   | <b>147</b>     | <b>726</b>       | <b>1,364</b>     | <b>2,080</b>     | <b>2,878</b>     | <b>3,804</b>         |       |       |       |       |       |       |       |       |       |       |       |  |
| <b>Income Before Income Taxes</b>                                  | <b>11,315</b>   | <b>11,531</b>  | <b>21,395</b>  | <b>25,268</b>  | <b>33,798</b>  | <b>40,461</b>  | <b>39,776</b>    | <b>44,626</b>    | <b>57,839</b>    | <b>65,584</b>    | <b>78,148</b>        |       |       |       |       |       |       |       |       |       |       |       |  |
| Provision for Income Taxes   | (2,263)         | (2,306)        | (4,814)        | (5,685)        | (7,605)        | (9,104)        | (8,950)          | (10,041)         | (13,014)         | (14,756)         | (17,583)             |       |       |       |       |       |       |       |       |       |       |       |  |
| Equity-Method Investment Activity, net of tax                      |                 |                |                |                |                |                |                  |                  |                  |                  |                      |       |       |       |       |       |       |       |       |       |       |       |  |
| <b>Net Income</b>  | <b>9,052</b>    | <b>9,225</b>   | <b>16,581</b>  | <b>19,583</b>  | <b>26,194</b>  | <b>31,357</b>  | <b>30,827</b>    | <b>34,585</b>    | <b>44,826</b>    | <b>50,828</b>    | <b>60,565</b>        |       |       |       |       |       |       |       |       |       |       |       |  |

| Historical Analysis<br><i>(in millions, except per share data)</i> | Consensus |       |       |       |       |              |              |              |              |              | EV: \$1,468,358 |              |              |              |              |              |       |       |       |       | Share Price: \$2,879 |       |       |       |       |       |  |  |  |  |
|--|-----------|-------|-------|-------|-------|--------------|--------------|--------------|--------------|--------------|-----------------|--------------|--------------|--------------|--------------|--------------|-------|-------|-------|-------|----------------------|-------|-------|-------|-------|-------|--|--|--|--|
|  | 2015A     | 2016A | 2017A | 2018A | 2019A | 2020E        | 2021E        | 2022E        | 2023E        | 2024E        | 2025E           | 2026E        | 2027E        | 2028E        | 2029E        | 2030E        | 2021E | 2022E | 2023E | 2024E | 2025E                | 2026E | 2027E | 2028E | 2029E | 2030E |  |  |  |  |
| <b>Segmented Revenue Growth</b>                                    |           |       |       |       |       |              |              |              |              |              |                 |              |              |              |              |              |       |       |       |       |                      |       |       |       |       |       |  |  |  |  |
| Online Stores  |           |       |       |       |       | 15.7%        | 17.0%        | 16.0%        | 15.0%        | 14.0%        | 12.0%           | 10.0%        | 8.0%         | 7.0%         | 6.0%         | 5.0%         |       |       |       |       |                      |       |       |       |       |       |  |  |  |  |
| Physical Stores  |           |       |       |       |       | 214.2%       | 15.0%        | 9.0%         | 9.4%         | 9.4%         | 10.5%           | 11.2%        | 10.2%        | 10.0%        | 9.0%         | 8.0%         |       |       |       |       |                      |       |       |       |       |       |  |  |  |  |
| Retail Third-Party Seller Services                                 |           |       |       |       |       | 30.0%        | 30.0%        | 25.0%        | 20.0%        | 20.0%        | 15.0%           | 12.0%        | 10.0%        | 8.0%         | 6.0%         | 5.0%         |       |       |       |       |                      |       |       |       |       |       |  |  |  |  |
| Retail Subscription Services                                       |           |       |       |       |       | 40.0%        | 40.0%        | 35.0%        | 30.0%        | 30.0%        | 15.0%           | 10.0%        | 8.0%         | 6.0%         | 5.0%         | 5.0%         |       |       |       |       |                      |       |       |       |       |       |  |  |  |  |
| AWS  |           |       |       |       |       | 44.4%        | 40.0%        | 35.0%        | 25.0%        | 20.0%        | 15.0%           | 15.0%        | 12.0%        | 12.0%        | 10.0%        | 8.0%         |       |       |       |       |                      |       |       |       |       |       |  |  |  |  |
| Other  |           |       |       |       |       | 50.0%        | 50.0%        | 50.0%        | 45.0%        | 35.0%        | 25.0%           | 15.0%        | 10.0%        | 8.0%         | 7.0%         | 6.0%         |       |       |       |       |                      |       |       |       |       |       |  |  |  |  |
| <b>Total Net Sales</b>   |           |       |       |       |       |              |              |              |              |              |                 |              |              |              |              |              |       |       |       |       |                      |       |       |       |       |       |  |  |  |  |
| <b>Expenses</b>  |           |       |       |       |       |              |              |              |              |              |                 |              |              |              |              |              |       |       |       |       |                      |       |       |       |       |       |  |  |  |  |
| Cost of Sales  |           |       |       |       |       | 61.0%        | 61.0%        | 59.5%        | 59.5%        | 59.0%        | 59.0%           | 59.5%        | 59.5%        | 59.0%        | 58.5%        | 58.5%        |       |       |       |       |                      |       |       |       |       |       |  |  |  |  |
| Fulfillment  |           |       |       |       |       | 14.9%        | 15.1%        | 15.4%        | 15.5%        | 15.6%        | 15.7%           | 15.8%        | 16.0%        | 16.0%        | 16.0%        |              |       |       |       |       |                      |       |       |       |       |       |  |  |  |  |
| Marketing  |           |       |       |       |       | 5.9%         | 6.0%         | 6.1%         | 6.2%         | 6.2%         | 6.2%            | 6.2%         | 6.1%         | 6.1%         | 6.1%         | 6.0%         |       |       |       |       |                      |       |       |       |       |       |  |  |  |  |
| Technology and Content   |           |       |       |       |       | 12.7%        | 12.7%        | 12.7%        | 12.7%        | 12.7%        | 12.5%           | 12.5%        | 12.5%        | 12.3%        | 12.0%        | 12.0%        |       |       |       |       |                      |       |       |       |       |       |  |  |  |  |
| General and Administrative   |           |       |       |       |       | 2.1%         | 2.1%         | 2.1%         | 2.0%         | 2.0%         | 2.0%            | 2.0%         | 1.9%         | 1.9%         | 1.9%         | 1.9%         |       |       |       |       |                      |       |       |       |       |       |  |  |  |  |
| Other Operating Expense, net                                       |           |       |       |       |       | 0.1%         | 0.1%         | 0.1%         | 0.1%         | 0.1%         | 0.1%            | 0.1%         | 0.1%         | 0.1%         | 0.1%         | 0.1%         |       |       |       |       |                      |       |       |       |       |       |  |  |  |  |
| <b>Total Operating Expenses</b>                                    |           |       |       |       |       | <b>86.4%</b> | <b>87.8%</b> | <b>89.9%</b> | <b>90.1%</b> | <b>90.7%</b> | <b>90.9%</b>    | <b>90.1%</b> | <b>90.1%</b> | <b>89.9%</b> | <b>89.1%</b> | <b>88.5%</b> |       |       |       |       |                      |       |       |       |       |       |  |  |  |  |
| Stock-Based Compensation (SBC) (% of SG&A)                         |           |       |       |       |       | 9.8%         | 9.8%         | 9.8%         | 9.8%         | 9.8%         | 9.8%            | 9.8%         | 9.8%         | 9.8%         | 9.8%         | 9.8%         |       |       |       |       |                      |       |       |       |       |       |  |  |  |  |
| Tax Rate   |           |       |       |       |       | 20.0%        | 20.0%        | 22.5%        | 22.5%        | 22.5%        | 22.5%           | 22.5%        | 22.5%        | 22.5%        | 22.5%        | 22.5%        |       |       |       |       |                      |       |       |       |       |       |  |  |  |  |
| Interest Income Rate (Opening Balance)                             |           |       |       |       |       | 1.0%         | 1.0%         | 1.0%         | 1.0%         | 1.0%         | 1.0%            | 1.0%         | 1.0%         | 1.0%         | 1.0%         | 1.0%         |       |       |       |       |                      |       |       |       |       |       |  |  |  |  |
| Interest Expense Rate (Average Debt)                               |           |       |       |       |       | 5.5%         | 5.5%         | 5.5%         | 5.5%         | 5.5%         | 5.5%            | 5.5%         | 5.5%         | 5.5%         | 5.5%         | 5.5%         |       |       |       |       |                      |       |       |       |       |       |  |  |  |  |

Figure 3.12 Assumptions about Income Statement Performance

#### Analyst Commentary:

- *The Net Sales/Revenues* will Quadruple over next 10 years.
- *The Total Operating Expenses* will also almost increase by the same pace as Revenues. (*Cost of Sales* is decreasing over time & will be tripled; *Fulfilment Costs, Marketing costs & General Expenses* has also quadrupled – All expenses are expressed as % of Revenue).
- *The Operating Income* Will Increase by ‘Almost 6 time’ in next 10 years. (Incredible Growth in EBIT). (*Interest Expense* has been assumed to be constant as it is difficult to forecast)
- *The Net Income* has increased by ‘Almost 7 times’ over next 10 years forecast. (*The Income tax obligations* has also increased but Tax Rate has been assumed to be in between 20-22.5%)

**(IV) Forecasted Balance Sheet Performance:**

| Historical Analysis                  |                | EV: \$1,468,350 |                |                |                |                |                |                |                |                  |                  | Share Price: \$2,879 |  |
|--------------------------------------|----------------|-----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|------------------|----------------------|--|
| (in millions, except per share data) |                | 2020E           | 2021E          | 2022E          | 2023E          | 2024E          | 2025E          | 2026E          | 2027E          | 2028E            | 2029E            | 2030E                |  |
| <b>Balance Sheet</b>                 |                |                 |                |                |                |                |                |                |                |                  |                  |                      |  |
| Current Assets:                      |                |                 |                |                |                |                |                |                |                |                  |                  |                      |  |
| Cash and Cash Equivalents            | (669)          | 48,255          | 81,083         | 126,469        | 178,550        | 236,421        | 300,254        | 371,805        | 451,633        | 544,261          | 643,397          |                      |  |
| Marketable Securities                | 18,929         | 18,929          | 18,929         | 18,929         | 18,929         | 18,929         | 18,929         | 18,929         | 18,929         | 18,929           | 18,929           |                      |  |
| Inventories                          | 30,273         | 38,209          | 46,322         | 56,199         | 65,985         | 75,923         | 85,588         | 93,546         | 99,998         | 107,038          | 112,162          |                      |  |
| Accounts Receivable, net and other   | 49,955         | 32,500          | 40,423         | 49,042         | 58,070         | 66,816         | 74,689         | 81,633         | 88,003         | 94,199           | 99,552           |                      |  |
| <b>Total Current Assets</b>          | <b>98,488</b>  | <b>137,893</b>  | <b>186,757</b> | <b>250,639</b> | <b>321,534</b> | <b>398,089</b> | <b>479,460</b> | <b>565,913</b> | <b>658,563</b> | <b>764,428</b>   | <b>874,040</b>   |                      |  |
| Property And Equipment, net          | 79,523         | 104,830         | 128,473        | 150,011        | 176,596        | 196,283        | 213,690        | 227,535        | 231,955        | 233,407          | 239,633          |                      |  |
| Goodwill                             | 14,754         | 14,754          | 14,754         | 14,754         | 14,754         | 14,754         | 14,754         | 14,754         | 14,754         | 14,754           | 14,754           |                      |  |
| Other Assets                         | 41,455         | 41,455          | 41,455         | 41,455         | 41,455         | 41,455         | 41,455         | 41,455         | 41,455         | 41,455           | 41,455           |                      |  |
| <b>Total Assets</b>                  | <b>258,425</b> | <b>323,136</b>  | <b>395,644</b> | <b>481,864</b> | <b>578,544</b> | <b>674,786</b> | <b>773,564</b> | <b>873,861</b> | <b>970,933</b> | <b>1,078,249</b> | <b>1,194,887</b> |                      |  |

| Historical Analysis                             |  | EV: \$1,468,350 |       |       |       |       |       |       |       |       |       | Share Price: \$2,879 |       |       |       |       |       |
|---|--|-----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|----------------------|-------|-------|-------|-------|-------|
| (in millions, except per share data)            |  | 2015A           | 2016A | 2017A | 2018A | 2019A | 2020E | 2021E | 2022E | 2023E | 2024E | 2025E                | 2026E | 2027E | 2028E | 2029E | 2030E |
| <b>Balance Sheet</b>                            |  |                 |       |       |       |       |       |       |       |       |       |                      |       |       |       |       |       |
| Inventories Days                                |  |                 |       |       |       | 52    | 52    | 52    | 52    | 52    | 52    | 52                   | 52    | 52    | 52    | 52    |       |
| Accounts Receivable Days                        |  |                 |       |       |       | 21    | 21    | 21    | 21    | 21    | 21    | 21                   | 21    | 21    | 21    | 21    |       |
| Change in Goodwill                              |  |                 |       |       |       | 0     | 0     | 0     | 0     | 0     | 0     | 0                    | 0     | 0     | 0     | 0     |       |
| Change in Other Assets                          |  |                 |       |       |       | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%                 | 0.0%  | 0.0%  | 0.0%  | 0.0%  |       |
| Change in Marketable Securities                 |  |                 |       |       |       | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%                 | 0.0%  | 0.0%  | 0.0%  | 0.0%  |       |
| Accounts Payable Days                           |  |                 |       |       |       | 115   | 115   | 115   | 115   | 115   | 115   | 115                  | 115   | 115   | 115   | 115   |       |
| Accrued Expenses                                |  |                 |       |       |       | 10.0% | 10.0% | 10.0% | 10.0% | 10.0% | 10.0% | 10.0%                | 10.0% | 10.0% | 10.0% | 10.0% |       |
| Unearned Revenue                                |  |                 |       |       |       | 3.0%  | 3.0%  | 3.0%  | 3.0%  | 3.0%  | 3.0%  | 3.0%                 | 3.0%  | 3.0%  | 3.0%  | 3.0%  |       |
| Cash Capex % of revenue                         |  |                 |       |       |       | 7.0%  | 7.0%  | 7.0%  | 6.0%  | 6.0%  | 6.0%  | 5.5%                 | 5.0%  | 5.0%  | 4.5%  | 4.5%  |       |
| PP&E Acquired under Capital Leases              |  |                 |       |       |       | 7.5%  | 6.0%  | 5.0%  | 5.0%  | 5.0%  | 4.0%  | 4.0%                 | 3.0%  | 3.0%  | 2.9%  | 2.9%  |       |
| Depreciation % of PPE (Opening Balance)         |  |                 |       |       |       | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% | 40.0% | 40.0%                | 40.0% | 40.0% | 40.0% | 40.0% |       |
| Repayment of Capital Leases (Opening Balance)   |  |                 |       |       |       | 38.0% | 38.0% | 38.0% | 38.0% | 38.0% | 38.0% | 38.0%                | 38.0% | 38.0% | 38.0% | 38.0% |       |
| Change in Long-Term Debt                        |  |                 |       |       |       | 0     | 0     | 0     | 0     | 0     | 0     | 0                    | 0     | 0     | 0     | 0     |       |
| Change in Common Shares                         |  |                 |       |       |       | 0     | 0     | 0     | 0     | 0     | 0     | 0                    | 0     | 0     | 0     | 0     |       |
| Change in Treasury Stock                        |  |                 |       |       |       | 0     | 0     | 0     | 0     | 0     | 0     | 0                    | 0     | 0     | 0     | 0     |       |
| Change in Additional Paid-in Capital            |  |                 |       |       |       | 0     | 0     | 0     | 0     | 0     | 0     | 0                    | 0     | 0     | 0     | 0     |       |
| Dividends                                       |  |                 |       |       |       | 0     | 0     | 0     | 0     | 0     | 0     | 0                    | 0     | 0     | 0     | 0     |       |
| Proceeds from Property and Equipment Incentives |  |                 |       |       |       | 0     | 0     | 0     | 0     | 0     | 0     | 0                    | 0     | 0     | 0     | 0     |       |
| Acquisitions, net of Cash Acquired, and Other   |  |                 |       |       |       | 0     | 0     | 0     | 0     | 0     | 0     | 0                    | 0     | 0     | 0     | 0     |       |
| Sales and Maturities of Marketable Securities   |  |                 |       |       |       | 0     | 0     | 0     | 0     | 0     | 0     | 0                    | 0     | 0     | 0     | 0     |       |
| Change in Basic Shares Outstanding              |  |                 |       |       |       | 1.2%  | 1.1%  | 1.0%  | 1.0%  | 1.0%  | 1.0%  | 1.0%                 | 1.0%  | 1.0%  | 1.0%  | 1.0%  |       |
| Change in Diluted Shares Outstanding            |  |                 |       |       |       | 1.6%  | 1.3%  | 1.0%  | 1.0%  | 1.0%  | 1.0%  | 1.0%                 | 1.0%  | 1.0%  | 1.0%  | 1.0%  |       |

Figure 3.13 Assumptions about Balance Sheet Performance

**Analyst Commentary:**

- *Total Assets* has been forecasted to increase by 5 times over next 10 years. (*The Cash & Cash Equivalents* has been negative in first year because of Repayment of long term debt (Cash Outflows) and then it will increase tremendously by 14 times because of no future long term debt repayments (assumed) , *Inventories* will quadruple, *The Receivables* will get tripled which can be a very positive signal, *The PP&E* will get tripled & *Goodwill* is assumed to remain constant)
  - Indicates very positive future signals for the company.

| Historical Analysis<br><i>(in millions, except per share data)</i> | EV: \$1,468,358      Share Price: \$2.879 |                |                |                |                |                |                |                |                |                  |                  |
|--|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|------------------|
|  | 2020E                                     | 2021E          | 2022E          | 2023E          | 2024E          | 2025E          | 2026E          | 2027E          | 2028E          | 2029E            | 2030E            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                        |   |                |                |                |                |                |                |                |                |                  |                  |
| Current Liabilities:   |   |                |                |                |                |                |                |                |                |                  |                  |
| Accounts Payable   | 66,951                                    | 84,501         | 102,443        | 124,286        | 145,928        | 167,907        | 189,282        | 206,880        | 221,149        | 236,719          | 248,051          |
| Accrued Expenses and Other   | 34,906                                    | 43,935         | 54,646         | 66,298         | 78,717         | 90,325         | 100,969        | 110,356        | 119,293        | 127,343          | 134,580          |
| Unearned Revenue   | 10,472                                    | 13,181         | 16,394         | 19,889         | 23,615         | 27,098         | 30,291         | 33,107         | 35,788         | 38,203           | 40,374           |
| <b>Total Current Liabilities</b>                                   | <b>112,329</b>                            | <b>141,617</b> | <b>173,483</b> | <b>210,473</b> | <b>248,261</b> | <b>285,330</b> | <b>320,541</b> | <b>350,343</b> | <b>376,230</b> | <b>402,266</b>   | <b>423,004</b>   |
| Long-Term Debt   | 29,787                                    | 29,787         | 29,787         | 29,787         | 29,787         | 29,787         | 29,787         | 29,787         | 29,787         | 29,787           | 29,787           |
| Other Long-Term Liabilities  | 36,806                                    | 52,262         | 62,807         | 75,170         | 89,045         | 94,419         | 102,008        | 110,469        | 107,360        | 106,574          | 108,185          |
| <b>Total Liabilities</b>   | <b>178,922</b>                            | <b>223,666</b> | <b>266,077</b> | <b>315,430</b> | <b>367,093</b> | <b>409,536</b> | <b>452,336</b> | <b>490,598</b> | <b>513,377</b> | <b>538,626</b>   | <b>560,976</b>   |
| Stockholders' Equity:  |   |                |                |                |                |                |                |                |                |                  |                  |
| Common Shares – 477 and 484  | 5   | 5              | 5              | 5              | 5              | 5              | 5              | 5              | 5              | 5                | 5                |
| Treasury Stock, at Cost  | (1,837)                                   | (1,837)        | (1,837)        | (1,837)        | (1,837)        | (1,837)        | (1,837)        | (1,837)        | (1,837)        | (1,837)          | (1,837)          |
| Additional Paid-in Capital   | 42,049                                    | 52,791         | 66,307         | 82,791         | 102,414        | 124,855        | 150,007        | 177,457        | 206,924        | 238,164          | 271,067          |
| Accumulated Other Comprehensive Loss                               | (986)                                     | (986)          | (986)          | (986)          | (986)          | (986)          | (986)          | (986)          | (986)          | (986)            | (986)            |
| Retained Earnings  | 40,272                                    | 49,497         | 66,078         | 85,661         | 111,855        | 143,212        | 174,039        | 208,624        | 253,450        | 304,277          | 364,842          |
| <b>Total Stockholders' Equity</b>                                  | <b>79,503</b>                             | <b>99,470</b>  | <b>129,568</b> | <b>165,635</b> | <b>211,451</b> | <b>265,250</b> | <b>321,228</b> | <b>383,263</b> | <b>457,556</b> | <b>539,623</b>   | <b>633,111</b>   |
| <b>Total Liabilities and Stockholders' Equity</b>                  | <b>258,425</b>                            | <b>323,136</b> | <b>395,644</b> | <b>481,064</b> | <b>578,544</b> | <b>674,786</b> | <b>773,564</b> | <b>873,861</b> | <b>970,933</b> | <b>1,078,249</b> | <b>1,194,087</b> |
| Check  | 0.000                                     | 0.000          | 0.000          | 0.000          | 0.000          | 0.000          | 0.000          | 0.000          | 0.000          | 0.000            | 0.000            |

Figure 3.13 Forecasted Balance Sheet Performance

Analyst Commentary:

- *Total Liabilities* for the company will get Tripled over next 10 years.  
(*Accounts Payable* will get Quadrupled, *Accrued Expenses & Unearned Revenues* will also get quadrupled, *Long Term Debt Obligations* has been assumed to remain constant after, repayment of substantial amount in first year.)
- *Shareholder's Equity / Owner's Equity* will increase by 8 times.  
(*Retained Earnings* will grow by 9 times, *Additional paid-in capital* will also grow by 7 times)

## (V) Forecasted Statement of Cash Flows Performance:

| Historical Analysis<br><i>(in millions, except per share data)</i>         | EV: \$1,468,358 Share Price: \$2,879 |               |               |                |                |                |                |                |                |                |                |
|--|--------------------------------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|  | 2020E                                | 2021E         | 2022E         | 2023E          | 2024E          | 2025E          | 2026E          | 2027E          | 2028E          | 2029E          | 2030E          |
| <b>Cash Flow Statement</b>   |                                      |               |               |                |                |                |                |                |                |                |                |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD                             | 36,410                               | (669)         | 48,255        | 81,083         | 126,469        | 178,550        | 236,421        | 300,254        | 371,805        | 451,633        | 544,261        |
| <b>OPERATING ACTIVITIES:</b>   |                                      |               |               |                |                |                |                |                |                |                |                |
| Net Income   | 9,052                                | 9,225         | 16,581        | 19,583         | 26,194         | 31,357         | 30,827         | 34,585         | 44,826         | 50,828         | 60,565         |
| Adjustments to Reconcile Net Income to Net Cash from Operating Activities: |                                      |               |               |                |                |                |                |                |                |                |                |
| Depreciation of Property and Equipment                                     | 19,273                               | 31,809        | 41,932        | 51,389         | 60,005         | 70,638         | 78,513         | 85,476         | 91,014         | 92,782         | 93,363         |
| Stock-Based Compensation   | 8,391                                | 10,743        | 13,516        | 16,484         | 19,623         | 22,441         | 25,151         | 27,450         | 29,467         | 31,239         | 32,923         |
| Other Non-Cash Operating Expense, net                                      | 0                                    | 0             | 0             | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |
| Changes in Operating Assets and Liabilities:                               |                                      |               |               |                |                |                |                |                |                |                |                |
| Inventories  | (9,776)                              | (7,936)       | (8,113)       | (9,877)        | (9,786)        | (9,938)        | (9,665)        | (7,957)        | (6,452)        | (7,041)        | (5,124)        |
| Accounts Receivable, net and other   | (26,139)                             | 17,455        | (7,923)       | (8,619)        | (9,028)        | (8,746)        | (7,873)        | (6,944)        | (6,370)        | (6,196)        | (5,353)        |
| Accounts Payable   | 19,768                               | 17,550        | 17,942        | 21,843         | 21,643         | 21,978         | 21,375         | 17,998         | 14,269         | 15,570         | 11,332         |
| Accrued Expenses and Other   | 2,467                                | 9,030         | 10,711        | 11,652         | 12,420         | 11,608         | 10,643         | 9,387          | 8,937          | 8,050          | 7,236          |
| Unearned Revenue   | 2,282                                | 2,709         | 3,213         | 3,495          | 3,726          | 3,482          | 3,193          | 2,816          | 2,681          | 2,415          | 2,171          |
| <b>Net Cash Provided by (used in) Operating Activities</b>                 | <b>22,317</b>                        | <b>90,584</b> | <b>87,859</b> | <b>105,950</b> | <b>124,795</b> | <b>142,822</b> | <b>152,164</b> | <b>162,412</b> | <b>178,372</b> | <b>187,648</b> | <b>197,113</b> |

Figure 3.14 Forecasted Cash Flows Performance

### Analyst Commentary:

- The **Net Cash Provided by Operating Activities** is forecasted to **increase** by 8 times in next 10 years.  
(Can be attributed to: Forecasted Tremendous Positive Increase in *Net Income/PAT, D&A Expenses & Stock based compensation (Non-cash expenses)*).

| Historical Analysis<br><i>(in millions, except per share data)</i>   | EV: \$1,468,358 Share Price: \$2,879 |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |
|--|--------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|  | 2020E                                | 2021E           | 2022E           | 2023E           | 2024E           | 2025E           | 2026E           | 2027E           | 2028E           | 2029E           | 2030E           |
| <b>INVESTING ACTIVITIES:</b>   |                                      |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| Purchases of Property and Equipment, Including Internal-Use Software | (24,434)                             | (30,755)        | (38,252)        | (39,779)        | (47,230)        | (54,195)        | (55,533)        | (55,178)        | (59,647)        | (57,305)        | (60,561)        |
| Proceeds from Property and Equipment Incentives                      | 0                                    | 0               | 0               | 0               | 0               | 0               | 0               | 0               | 0               | 0               | 0               |
| Acquisitions, net of cash acquired, and other                        | 0                                    | 0               | 0               | 0               | 0               | 0               | 0               | 0               | 0               | 0               | 0               |
| Sales (Purchases) of Marketable Securities, net                      | 0                                    | 0               | 0               | 0               | 0               | 0               | 0               | 0               | 0               | 0               | 0               |
| <b>Net Cash Provided by (used in) Investing Activities</b>           | <b>(24,434)</b>                      | <b>(30,755)</b> | <b>(38,252)</b> | <b>(39,779)</b> | <b>(47,230)</b> | <b>(54,195)</b> | <b>(55,533)</b> | <b>(55,178)</b> | <b>(59,647)</b> | <b>(57,305)</b> | <b>(60,561)</b> |
| <b>FINANCING ACTIVITIES:</b>   |                                      |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| Proceeds (Repayments) from Long-Term Debt and Other                  | (33,418)                             | 0               | 0               | 0               | 0               | 0               | 0               | 0               | 0               | 0               | 0               |
| Principal Repayments of Capital Lease Obligations                    | (1,544)                              | (10,906)        | (16,779)        | (20,786)        | (25,484)        | (30,756)        | (32,798)        | (35,682)        | (38,897)        | (37,716)        | (37,417)        |
| Principal Repayments of Finance Lease Obligations                    | 0                                    | 0               | 0               | 0               | 0               | 0               | 0               | 0               | 0               | 0               | 0               |
| Proceeds from Issuing Equity (Common, Treasury, Paid-in, etc)        | 0                                    | 0               | 0               | 0               | 0               | 0               | 0               | 0               | 0               | 0               | 0               |
| Payment of Dividends   | 0                                    | 0               | 0               | 0               | 0               | 0               | 0               | 0               | 0               | 0               | 0               |
| <b>Net Cash Provided by (used in) Financing Activities</b>           | <b>(34,962)</b>                      | <b>(10,906)</b> | <b>(16,779)</b> | <b>(20,786)</b> | <b>(25,484)</b> | <b>(30,756)</b> | <b>(32,798)</b> | <b>(35,682)</b> | <b>(38,897)</b> | <b>(37,716)</b> | <b>(37,417)</b> |
| Foreign Currency Effect on Cash and Cash Equivalents                 |                                      |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>          | <b>(37,079)</b>                      | <b>48,924</b>   | <b>32,828</b>   | <b>45,386</b>   | <b>52,081</b>   | <b>57,871</b>   | <b>63,833</b>   | <b>71,551</b>   | <b>79,828</b>   | <b>92,628</b>   | <b>99,135</b>   |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                      | <b>(669)</b>                         | <b>48,255</b>   | <b>81,083</b>   | <b>126,469</b>  | <b>178,550</b>  | <b>236,421</b>  | <b>300,254</b>  | <b>371,805</b>  | <b>451,633</b>  | <b>544,261</b>  | <b>643,397</b>  |

Figure 3.14 Forecasted Cash Flows Performance

### Analyst Commentary:

- The **Net Cash used in Investing Activities** will get more than Doubled over next 10 years .  
(Owing to: Almost Tripling Increase in *Purchase of PP&E & Acquisitions*, Rest have been assumed to be constant).
- The Net Cash used in *Financing Activities* will fluctuate but will remain almost similar over next 10 years. (*Capital lease Obligation payments* will increase tremendously, *Proceeds/Repayment of Long-term debt* will be huge in first year then, will become null.)
- The **Net Increase in Cash & Cash Equivalents** will get almost tripled over time but will be negative in first year.
- The **End of period Cash & Cash Equivalents** will increase by 15 times – A Positive Signal.  
(Because of Huge initial Cash & Cash Equivalent Balances)

**(VI) Forecasted Free Cash Flows to Firm Performance:**

| Historical Analysis<br><i>(in millions, except per share data)</i> | EV: \$1,468,368      Share Price: \$2,879 |               |               |               |               |               |               |                |                |                |                |
|--|---|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|
|  | 2020E                                     | 2021E         | 2022E         | 2023E         | 2024E         | 2025E         | 2026E         | 2027E          | 2028E          | 2029E          | 2030E          |
| <b>Free Cash Flow to Firm (FCFF)</b>                               |   |               |               |               |               |               |               |                |                |                |                |
| Operating Profit   | 12,590                                    | 13,176        | 22,551        | 26,096        | 34,172        | 40,314        | 39,061        | 43,262         | 55,760         | 62,706         | 74,344         |
| Less: Unlevered Taxes  | (2,518)                                   | (2,636)       | (5,074)       | (5,872)       | (7,689)       | (9,071)       | (8,786)       | (9,734)        | (12,546)       | (14,109)       | (16,727)       |
| <b>Net Operating Profit After Tax (NOPAT)</b>                      | <b>10,072</b>                             | <b>10,541</b> | <b>17,477</b> | <b>20,224</b> | <b>26,483</b> | <b>31,243</b> | <b>30,264</b> | <b>33,528</b>  | <b>43,214</b>  | <b>48,597</b>  | <b>57,617</b>  |
| Plus: Depreciation & Amortization                                  | 19,273                                    | 31,809        | 41,932        | 51,389        | 60,005        | 70,638        | 78,513        | 85,476         | 91,014         | 92,782         | 93,363         |
| Plus: Stock-Based Compensation                                     | 8,391                                     | 10,743        | 13,516        | 16,484        | 19,623        | 22,441        | 25,151        | 27,450         | 29,467         | 31,239         | 32,923         |
| Plus: Other Non-Cash Expenses                                      | 0   | 0             | 0             | 0             | 0             | 0             | 0             | 0              | 0              | 0              | 0              |
| Less: Cash Capex   | (24,434)                                  | (30,755)      | (38,252)      | (39,779)      | (47,230)      | (54,195)      | (55,533)      | (55,178)       | (59,647)       | (57,305)       | (60,561)       |
| Plus: Changes in Net Working Capital                               | (14,399)                                  | 38,808        | 15,830        | 18,494        | 18,974        | 18,385        | 17,673        | 14,900         | 13,065         | 12,799         | 10,262         |
| <b>Free Cash Flow to Firm (FCFF)</b>                               | <b>(1,098)</b>                            | <b>61,145</b> | <b>50,503</b> | <b>66,813</b> | <b>77,854</b> | <b>88,513</b> | <b>96,069</b> | <b>106,176</b> | <b>117,114</b> | <b>128,113</b> | <b>133,604</b> |

Figure 3.15 Forecasted Free Cash Flows to Firm Performance

Analyst Commentary:

- *The Free Cash Flow to Firm* is forecasted to double over next 10 years, which is a very positive signal for Investors.  
(Operating Profits will increase by 6 times, D&A & Stock Based Compensation (Non-cash expenses) will get quadrupled)



## Discounted Cash Flow Analysis: -

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### (I) Present Values of Forecasted Free Cash Flow to Firm:

| Historical Analysis<br><small>(in millions, except per share data)</small> | EV: \$1,468,358 |           |           |           |           |           |           |           |           |           | Share Price: \$2,879 |           |
|--|-----------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|----------------------|-----------|
|  | 2019A           | 2020E     | 2021E     | 2022E     | 2023E     | 2024E     | 2025E     | 2026E     | 2027E     | 2028E     | 2029E                | 2030E     |
| Valuation Timeline   | 03/28/20        | 12/31/20  | 12/31/21  | 12/31/22  | 12/31/23  | 12/31/24  | 12/31/25  | 12/31/26  | 12/31/27  | 12/31/28  | 12/31/29             | 12/31/30  |
| Year Frac  | 0.76            | 1.00      | 1.00      | 1.00      | 1.00      | 1.00      | 1.00      | 1.00      | 1.00      | 1.00      | 1.00                 | 1.00      |
| Free Cash Flow to Firm (FCFF)  | 0               | (833)     | 61,145    | 50,503    | 66,813    | 77,854    | 88,513    | 96,069    | 106,176   | 117,114   | 128,113              | 133,604   |
| Rolling Enterprise Value (NPV)   | 1,468,358       | 1,567,970 | 1,709,995 | 1,797,246 | 1,903,950 | 2,002,952 | 2,098,357 | 2,190,730 | 2,283,181 | 2,373,496 | 2,459,457            | 2,541,164 |
| Plus: Cash + Marketable Securities   | 29,765          | 18,260    | 67,184    | 100,012   | 145,398   | 197,479   | 256,350   | 319,183   | 390,734   | 470,562   | 563,190              | 662,326   |
| Less: Debt + Capital & Finance Leases                                      | (47,219)        | (58,485)  | (73,941)  | (84,486)  | (96,849)  | (110,724) | (116,098) | (123,687) | (132,148) | (129,039) | (128,253)            | (129,864) |
| Equity Value   | 1,450,904       | 1,527,744 | 1,703,237 | 1,812,772 | 1,952,499 | 2,089,707 | 2,237,608 | 2,386,226 | 2,541,768 | 2,715,919 | 2,894,394            | 3,073,626 |
| Fully Diluted Shares Outstanding   | 504             | 504       | 507       | 512       | 518       | 523       | 528       | 533       | 539       | 544       | 549                  | 555       |
| Rolling AMZN Value per Share   | \$2,879         | \$3,031   | \$3,357   | \$3,537   | \$3,772   | \$3,997   | \$4,238   | \$4,475   | \$4,719   | \$4,991   | \$5,268              | \$5,539   |
| Investor IRR   |                 |           |           |           |           |           |           |           |           |           |                      |           |
| Equity Investor Return (After SBC dilution)                                |                 | (\$1,900) |           |           |           |           |           |           |           |           |                      | \$5,539   |
| Equity Investor IRR (After dilution)                                       |                 | 10.4%     |           |           |           |           |           |           |           |           |                      |           |

Figure 3.16 Present Values of Forecasted Free Cash Flow to Firm

**Equity Value = Enterprise Value + Cash – Debt**

#### Analyst Commentary:

- The **Free Cash Flow to Firm** is forecasted to double over next 10 years, which is a very positive signal for Investors.
- The **Equity value** will double in 10 years from \$1.45 Trillion to \$3.07 Trillion.
- Hence, **The Rolling Intrinsic Amazon Value Per Share** will also Double.

#### Calculation of Net Present Value via XNPV Function:

The screenshot shows an Excel spreadsheet with the following data points for the XNPV function:

- Rate:** 0.09
- Values:** F251:SR5251 (representing the Free Cash Flow to Firm values)
- Dates:** F248:SR5248 (representing the Valuation Timeline dates)
- Formula result:** 1,468,358

Figure 3.17 Calculation of Net Present Value via XNPV Function

Calculation of Internal Rate of Return via XIRR Function:

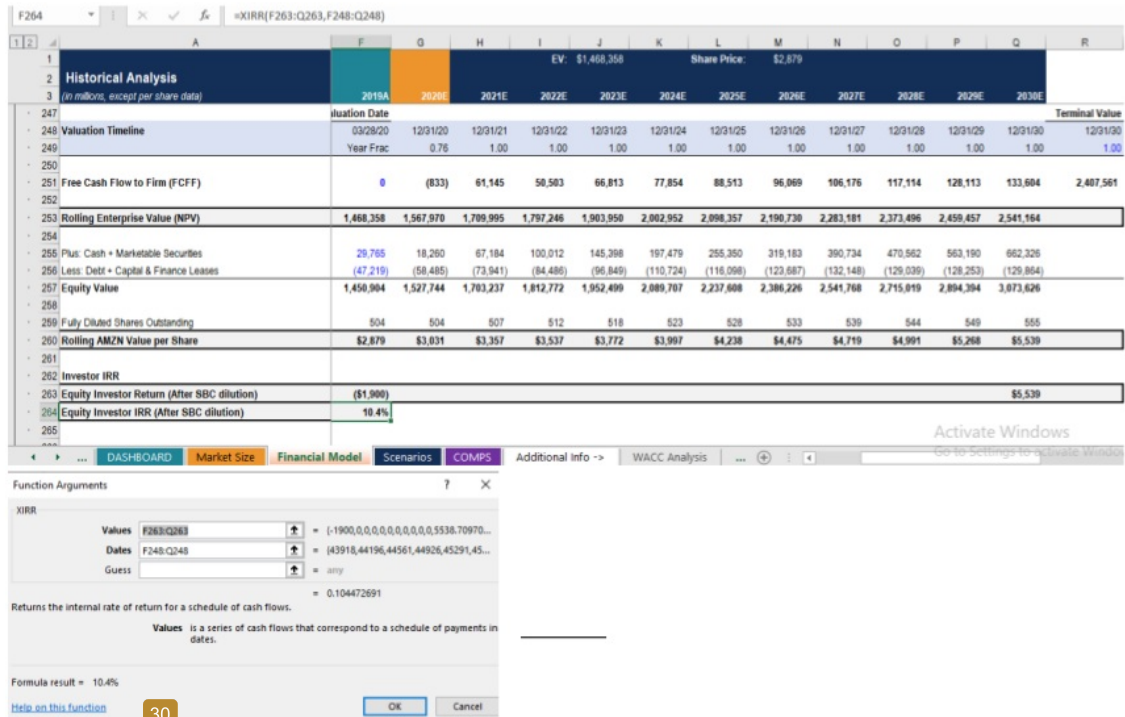


Figure 3.18 Calculation of Internal Rate of Return via XIRR Function

## (II) Calculation of Terminal Value:

| Discounted Cash Flow (DCF) Analysis                  |                |               |             |                 |                      |           |           |           |           |           |           |           |           |
|--|----------------|---------------|-------------|-----------------|----------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Terminal Value (Choose Option -->)                   | Model          | Exit Multiple | Growth Rate |                 |                      |           |           |           |           |           |           |           |           |
| Terminal Value in Model                              | Exit Multiple  | 12.0x         | 4.0%        |                 |                      |           |           |           |           |           |           |           |           |
| Discount Rate  |                | 2,407,561     | 2,778,959   |                 |                      |           |           |           |           |           |           |           |           |
| Valuation Date                                       |                | 9.0%          |             |                 |                      |           |           |           |           |           |           |           |           |
| # Shares Outstanding as of Valuation Date (millions) |                | 3/28/2020     |             |                 |                      |           |           |           |           |           |           |           |           |
| Market Price as of Valuation Date                    |                | 504           |             |                 |                      |           |           |           |           |           |           |           |           |
|  |                | \$1,900       |             |                 |                      |           |           |           |           |           |           |           |           |
|  |                |               |             | EV: \$1,468,358 | Share Price: \$2,879 |           |           |           |           |           |           |           |           |
| Historical Analysis                                  | 18A            | 2019A         | 2020E       | 2021E           | 2022E                | 2023E     | 2024E     | 2025E     | 2026E     | 2027E     | 2028E     | 2029E     | 2030E     |
| <i>(in millions, except per share data)</i>          |                |               |             |                 |                      |           |           |           |           |           |           |           |           |
| Valuation Timeline                                   | Valuation Date | 03/28/20      | 12/31/20    | 12/31/21        | 12/31/22             | 12/31/23  | 12/31/24  | 12/31/25  | 12/31/26  | 12/31/27  | 12/31/28  | 12/31/29  | 12/31/30  |
|  | Year Frac      | 0.76          | 1.00        | 1.00            | 1.00                 | 1.00      | 1.00      | 1.00      | 1.00      | 1.00      | 1.00      | 1.00      | 1.00      |
| Free Cash Flow to Firm (FCFF)                        |                | 0             | (833)       | 61,145          | 50,503               | 66,813    | 77,854    | 88,513    | 96,069    | 106,176   | 117,114   | 128,113   | 133,604   |
| Rolling Enterprise Value (NPV)                       |                | 1,468,358     | 1,567,970   | 1,709,995       | 1,797,246            | 1,903,950 | 2,002,952 | 2,098,357 | 2,190,730 | 2,283,181 | 2,373,496 | 2,459,457 | 2,541,164 |
| Plus: Cash + Marketable Securities                   |                | 29,765        | 18,260      | 67,184          | 100,012              | 145,398   | 197,479   | 255,350   | 319,163   | 390,734   | 470,562   | 563,190   | 662,326   |
| Less: Debt + Capital & Finance Leases                |                | (47,219)      | (58,485)    | (73,941)        | (84,486)             | (96,849)  | (110,724) | (116,098) | (123,687) | (132,148) | (129,039) | (128,253) | (129,864) |
| Equity Value   |                | 1,450,904     | 1,527,744   | 1,703,237       | 1,812,772            | 1,952,499 | 2,089,707 | 2,237,608 | 2,386,226 | 2,541,768 | 2,715,619 | 2,894,394 | 3,073,626 |
| Fully Diluted Shares Outstanding                     |                | 504           | 504         | 507             | 512                  | 518       | 523       | 528       | 533       | 539       | 544       | 549       | 555       |
| Rolling AMZN Value per Share                         |                | \$2,879       | \$3,031     | \$3,357         | \$3,537              | \$3,772   | \$3,997   | \$4,238   | \$4,475   | \$4,719   | \$4,991   | \$5,268   | \$5,539   |
| Investor IRR   |                |               |             |                 |                      |           |           |           |           |           |           |           |           |
| Equity Investor Return (After SBC dilution)          |                | (\$1,900)     |             |                 |                      |           |           |           |           |           |           |           | \$5,539   |
| Equity Investor IRR (After SBC dilution)             |                | 16.4%         |             |                 |                      |           |           |           |           |           |           |           |           |

Figure 3.18 Calculation of terminal value

### Analyst Commentary:

- Terminal Value is used while calculating Net Present Value.
- *The Terminal Value* can be calculated via 2 ways:

#### Discounted Cash Flow (DCF) Analysis

|  |               |               |             |
|--|---------------|---------------|-------------|
| Terminal Value (Choose Option -->)                   | Model         | Exit Multiple | Growth Rate |
| Terminal Value in Model                              | Exit Multiple | 12.0x         | 4.0%        |
| Discount Rate  |               | 2,407,561     | 2,778,959   |
| Valuation Date                                       |               | 9.0%          |             |
| # Shares Outstanding as of Valuation Date (millions) |               | 3/28/2020     |             |
| Market Price as of Valuation Date                    |               | 504           |             |
|  |               | \$1,900       |             |

= EBITDA \* Exit Multiple

- The Terminal Value via this method is: \$2.407 trillion.
- More Suitable for Amazon because of EBITDA Calculation. (Excluding SBC)

### EBITDA Calculation:

| Discounted Cash Flow (DCF) Analysis                  |          |          |          |                 |                      |          |          |          |          |          |          |  |
|--|----------|----------|----------|-----------------|----------------------|----------|----------|----------|----------|----------|----------|--|
|  |          |          |          | EV: \$1,468,358 | Share Price: \$2,879 |          |          |          |          |          |          |  |
| Historical Analysis                                  | 2019E    | 2021E    | 2022E    | 2023E           | 2024E                | 2025E    | 2026E    | 2027E    | 2028E    | 2029E    | 2030E    |  |
| <i>(in millions, except per share data)</i>          |          |          |          |                 |                      |          |          |          |          |          |          |  |
| Free Cash Flow (FCF) From Operations                 |          |          |          |                 |                      |          |          |          |          |          |          |  |
| Net Cash Provided by (used in) Operating Activities  | 22,317   | 90,584   | 87,859   | 105,950         | 124,795              | 142,822  | 152,164  | 162,412  | 178,372  | 187,648  | 197,113  |  |
| Purchases of Property and Equipment                  | (24,434) | (30,755) | (38,252) | (39,779)        | (47,230)             | (54,195) | (55,533) | (55,178) | (59,647) | (57,305) | (60,581) |  |
| Free Cash Flow                                       | (2,117)  | 59,829   | 49,607   | 66,172          | 77,565               | 88,627   | 96,631   | 107,234  | 118,725  | 130,344  | 136,552  |  |
| Property and Equipment Acquired Under Capital Leases | (26,179) | (26,361) | (27,323) | (33,149)        | (39,359)             | (36,130) | (40,387) | (44,142) | (35,788) | (36,930) | (39,028) |  |
| Free Cash Flow Less Capital Leases                   | (28,297) | 33,468   | 22,284   | 33,023          | 38,206               | 52,497   | 56,244   | 63,091   | 82,937   | 93,414   | 97,524   |  |
| EBIT   | 12,590   | 13,176   | 22,551   | 26,096          | 34,172               | 40,314   | 39,051   | 43,262   | 55,760   | 62,706   | 74,344   |  |
| D&A  | 19,273   | 31,809   | 41,932   | 51,389          | 60,005               | 70,638   | 78,513   | 85,476   | 91,014   | 92,782   | 93,363   |  |
| EBITDA (Including SBC)                               | 31,862   | 44,985   | 64,483   | 77,485          | 94,176               | 110,952  | 117,564  | 128,738  | 146,774  | 155,488  | 167,707  |  |
| Stock-Based Compensation (SBC)                       | 8,391    | 10,743   | 13,516   | 16,484          | 19,623               | 22,441   | 25,151   | 27,450   | 29,467   | 31,239   | 32,923   |  |
| EBITDA (Excluding SBC)                               | 40,253   | 55,728   | 77,999   | 93,969          | 113,799              | 133,394  | 142,715  | 156,188  | 176,241  | 186,728  | 200,630  |  |

Figure 3.19 Calculation of EBITDA

## 2) Growth Rate Value:

| Discounted Cash Flow (DCF) Analysis                  |             |               |             |
|--|-------------|---------------|-------------|
|  | Model       | Exit Multiple | Growth Rate |
| Terminal Value (Choose Option -->)                   | Growth Rate | 12.0x         | 4.0%        |
| Terminal Value in Model                              | 2,778,959   | 2,407,561     | 2,778,959   |
| Discount Rate  | 9.0%        |               |             |
| Valuation Date                                       | 3/28/2020   |               |             |
| # Shares Outstanding as of Valuation Date (millions) | 504         |               |             |
| Market Price as of Valuation Date                    | \$1,900     |               |             |

Figure 3.20 Calculation of Growth Rate Value

$$= (\text{FCFF of last forecasting year}) * (1 + \text{Growth Rate}) / (\text{Discount Rate} - \text{Growth Rate})$$

➤ The Terminal Value via this Method is: \$2.778 Trillion.

### (III) Sensitivity of Stock Price:

|               |       | Intrinsic Value (\$/share) |         |         |         |         |
|---------------|-------|----------------------------|---------|---------|---------|---------|
|               |       | Discount Rate              |         |         |         |         |
| Exit Multiple |       | 11.0%                      | 10.0%   | 9.0%    | 8.0%    | 7.0%    |
|               |       | 8.0x                       | \$1,914 | \$2,073 | \$2,249 | \$2,443 |
|               | 10.0x | \$2,172                    | \$2,359 | \$2,564 | \$2,791 | \$3,042 |
|               | 12.0x | \$2,431                    | \$2,644 | \$2,879 | \$3,139 | \$3,427 |
|               | 14.0x | \$2,690                    | \$2,929 | \$3,194 | \$3,486 | \$3,811 |
|               | 16.0x | \$2,949                    | \$3,214 | \$3,508 | \$3,834 | \$4,195 |

Figure 3.21 Sensitivity of Stock Price

#### Analyst Commentary:

- Analyst Tracks the dependency of Stocks Price on *Exit Multiple & Discount Rate*.
- At 8.0 x – Exit Multiple & 11% - Discount Rate, The Stock Price is: \$1,914.
- At 16.0 x – Exit Multiple & 7% - Discount Rate, The Stock Price is: \$4,195.
- At 12.0 x – Exit Multiple & 9% - Discount Rate, The Stock Price is: \$2,879. (Our Intrinsic Value)

## Comparable Valuation / Sum of the Parts Valuation Analysis: -

- The Target Price as per Comparable Valuation Analysis is: \$3,368.
- But the Model is not a Mainstream Model hence, DCF Valuation is considered over.

| Comps Analysis                              |        |                       |           |                   |                  |                   |                     |                        |                          |                      |                     |                     |            |       |          |       |
|---|--------|-----------------------|-----------|-------------------|------------------|-------------------|---------------------|------------------------|--------------------------|----------------------|---------------------|---------------------|------------|-------|----------|-------|
| <i>(in millions, except per share data)</i> |        |                       |           |                   |                  |                   |                     |                        |                          |                      |                     |                     |            |       |          |       |
| Company Name                                | Symbol | Market Data           |           |                   |                  | Financial Data    |                     |                        |                          |                      |                     |                     | EV/Revenue |       | EVEBITDA |       |
|   |        | Market Capitalization | Net Debt  | Minority Interest | Enterprise Value | LTM Total Revenue | 2021E Total Revenue | LTM EBITDA (excl. SBC) | 2021E EBITDA (excl. SBC) | 2021E Revenue Growth | 2021E EBITDA Growth | 2021E EBITDA Margin | LTM        | 2021E | LTM      | 2021E |
| <b>1P Comps</b>                             |        |                       |           |                   |                  |                   |                     |                        |                          |                      |                     |                     |            |       |          |       |
| Costco Wholesale                            | COST   | \$103,728             | (\$285)   | \$304             | \$103,747        | \$141,576         | \$144,093           | \$5,917                | \$6,009                  | 1.8%                 | 1.6%                | 4.2%                | 0.7x       | 0.7x  | 17.5x    | 17.3x |
| Target Corporation                          | TGT    | \$45,050              | \$12,164  | \$0               | \$57,214         | \$73,580          | \$75,194            | \$6,639                | \$6,563                  | 2.2%                 | -4.0%               | 8.7%                | 0.8x       | 0.8x  | 8.4x     | 8.7x  |
| Lowes's Companies, Inc.                     | LOW    | \$79,081              | \$13,563  | \$0               | \$92,644         | \$70,511          | \$71,606            | \$8,045                | \$7,617                  | 1.6%                 | -5.3%               | 10.6%               | 1.3x       | 1.3x  | 11.5x    | 12.2x |
| The Home Depot, Inc.                        | HD     | \$208,245             | \$22,008  | \$0               | \$230,253        | \$104,319         | \$108,262           | \$17,260               | \$17,836                 | 3.8%                 | 3.3%                | 16.5%               | 2.2x       | 2.1x  | 13.3x    | 12.8x |
| Walmart Inc.                                | WMT    | \$302,626             | \$38,324  | \$2,627           | \$343,577        | \$510,164         | \$511,960           | \$32,639               | \$32,620                 | 0.4%                 | -0.1%               | 6.4%                | 0.7x       | 0.7x  | 10.5x    | 10.5x |
| JD.com, Inc.                                | JD     | \$34,132              | (\$3,804) | \$2,186           | \$32,516         | \$60,186          | \$67,439            | \$301                  | \$326                    | 12.1%                | 207.3%              | 1.4%                | 0.5x       | 0.5x  | 108.0x   | 35.1x |
| Mean  |        | \$128,810             | \$13,662  | \$853             | \$143,325        | \$160,056         | \$163,052           | \$11,834               | \$11,928                 | 3.6%                 | 33.8%               | 8.0%                | 1.0x       | 1.0x  | 28.2x    | 16.1x |
| Median                                      |        | \$91,404              | \$12,864  | \$152             | \$98,195         | \$88,950          | \$92,728            | \$7,442                | \$7,090                  | 2.0%                 | 0.7%                | 7.5%                | 0.8x       | 0.7x  | 12.4x    | 12.5x |
| Amazon 1P                                   |        |                       |           |                   | <b>\$210,238</b> | <b>\$135,893</b>  | <b>\$286,335</b>    |                        |                          |                      |                     |                     |            |       |          |       |
| Amazon 1P (min)                             |        |                       |           |                   | \$154,261        |                   |                     |                        |                          |                      |                     |                     |            |       |          |       |
| Amazon 1P (max)                             |        |                       |           |                   | \$270,236        |                   |                     |                        |                          |                      |                     |                     |            |       |          |       |
| <b>3P Comps</b>                             |        |                       |           |                   |                  |                   |                     |                        |                          |                      |                     |                     |            |       |          |       |
| eBay Inc.                                   | EBAY   | \$28,837              | \$4,410   | \$0               | \$33,247         | \$10,216          | \$10,735            | \$2,985                | \$3,609                  | 5.1%                 | 20.9%               | 33.6%               | 3.3x       | 3.1x  | 11.1x    | 9.2x  |
| eBay, Inc.                                  | ETSY   | \$4,842               | (\$304)   | \$0               | \$4,537          | \$540             | \$598               | \$68                   | \$137                    | 10.8%                | 39.5%               | 22.5%               | 8.4x       | 7.6x  | 46.3x    | 33.1x |
| Alibaba Group                               | BABA   | \$379,295             | (\$5,263) | \$10,666          | \$383,958        | \$44,953          | \$51,191            | \$12,099               | \$16,925                 | 13.9%                | 39.5%               | 33.1%               | 8.5x       | 7.5x  | 31.7x    | 22.7x |
| Mean  |        | \$137,628             | (\$719)   | \$3,555           | \$140,464        | \$18,573          | \$20,842            | \$5,961                | \$8,690                  | 9.9%                 | 33.4%               | 29.9%               | 6.7x       | 6.1x  | 28.7x    | 21.7x |
| Median                                      |        | \$28,837              | (\$304)   | \$0               | \$33,247         | \$10,216          | \$10,735            | \$2,985                | \$3,609                  | 10.8%                | 39.5%               | 33.1%               | 8.4x       | 7.5x  | 31.7x    | 22.7x |
| Amazon 3P                                   |        |                       |           |                   | <b>\$550,488</b> | <b>\$39,885</b>   | <b>\$90,858</b>     |                        |                          |                      |                     |                     |            |       |          |       |
| Amazon 3P (min)                             |        |                       |           |                   | \$550,488        |                   |                     |                        |                          |                      |                     |                     |            |       |          |       |
| Amazon 3P (max)                             |        |                       |           |                   | \$601,867        |                   |                     |                        |                          |                      |                     |                     |            |       |          |       |

Figure 3.22 Comparable valuation Analysis

- Enterprise Value of Amazon's 1P Business is: \$210 Billion.
- Enterprise Value of Amazon's 3P Business is: \$550 Billion.

| Comps Analysis                              |        |                       |             |                   |                  |                   |                     |                        |                          |                      |                     |                     |            |       |          |       |
|---|--------|-----------------------|-------------|-------------------|------------------|-------------------|---------------------|------------------------|--------------------------|----------------------|---------------------|---------------------|------------|-------|----------|-------|
| <i>(in millions, except per share data)</i> |        |                       |             |                   |                  |                   |                     |                        |                          |                      |                     |                     |            |       |          |       |
| Company Name                                | Symbol | Market Data           |             |                   |                  | Financial Data    |                     |                        |                          |                      |                     |                     | EV/Revenue |       | EVEBITDA |       |
|   |        | Market Capitalization | Net Debt    | Minority Interest | Enterprise Value | LTM Total Revenue | 2021E Total Revenue | LTM EBITDA (excl. SBC) | 2021E EBITDA (excl. SBC) | 2021E Revenue Growth | 2021E EBITDA Growth | 2021E EBITDA Margin | LTM        | 2021E | LTM      | 2021E |
| <b>Advertising Comps</b>                    |        |                       |             |                   |                  |                   |                     |                        |                          |                      |                     |                     |            |       |          |       |
| Alphabet Inc.                               | GOOG   | \$739,039             | (\$102,430) | \$0               | \$636,609        | \$129,866         | \$136,488           | \$39,334               | \$49,722                 | 5.1%                 | 25.4%               | 36.4%               | 4.5x       | 4.7x  | 16.2x    | 12.8x |
| Facebook, Inc.                              | FB     | \$430,896             | (\$41,136)  | \$0               | \$389,760        | \$51,896          | \$55,366            | \$28,388               | \$33,067                 | 6.7%                 | 16.5%               | 59.7%               | 7.5x       | 7.0x  | 13.7x    | 11.8x |
| Twitter, Inc.                               | TWTR   | \$26,116              | (\$3,249)   | \$0               | \$22,866         | \$2,805           | \$3,001             | \$674                  | \$1,148                  | 4.7%                 | 70.3%               | 38.2%               | 8.0x       | 7.6x  | 33.5x    | 19.5x |
| Mean  |        | \$399,684             | (\$48,938)  | \$0               | \$349,745        | \$61,542          | \$64,952            | \$22,799               | \$27,979                 | 5.5%                 | 37.7%               | 44.8%               | 6.8x       | 6.4x  | 21.3x    | 14.8x |
| Median                                      |        | \$430,896             | (\$41,136)  | \$0               | \$389,760        | \$51,896          | \$55,366            | \$28,388               | \$33,067                 | 5.1%                 | 25.4%               | 38.2%               | 7.5x       | 7.0x  | 16.2x    | 12.8x |
| Amazon Advertising                          |        |                       |             |                   | <b>\$204,138</b> | <b>\$8,455</b>    | <b>\$31,691</b>     |                        |                          |                      |                     |                     |            |       |          |       |
| Amazon Advertising (min)                    |        |                       |             |                   | \$204,138        |                   |                     |                        |                          |                      |                     |                     |            |       |          |       |
| Amazon Advertising (max)                    |        |                       |             |                   | \$223,097        |                   |                     |                        |                          |                      |                     |                     |            |       |          |       |
| <b>Cloud Comps</b>                          |        |                       |             |                   |                  |                   |                     |                        |                          |                      |                     |                     |            |       |          |       |
| Oracle                                      | ORCL   | \$186,590             | (\$1,795)   | \$497             | \$185,292        | \$39,920          | \$39,763            | \$16,155               | \$16,615                 | -0.4%                | 15.2%               | 46.8%               | 4.6x       | 4.7x  | 11.5x    | 10.8x |
| Red Hat, Inc.                               | RHT    | \$30,630              | (\$1,251)   | \$0               | \$29,379         | \$3,157           | \$3,261             | \$602                  | \$667                    | 3.3%                 | 44.2%               | 26.5%               | 9.3x       | 9.0x  | 48.8x    | 33.5x |
| Salesforce.com                              | CRM    | \$101,360             | \$971       | \$0               | \$102,331        | \$11,793          | \$13,190            | \$1,103                | \$1,341                  | 11.8%                | 184.8%              | 23.8%               | 8.7x       | 7.8x  | 52.8x    | 32.6x |
| Veeva, Inc.                                 | VMW    | \$59,457              | (\$9,062)   | \$0               | \$49,395         | \$8,407           | \$8,826             | \$2,262                | \$3,504                  | 5.0%                 | 54.9%               | 38.7%               | 5.9x       | 5.6x  | 21.8x    | 14.1x |
| SAP   | SAP    | \$127,929             | \$3,349     | \$49              | \$131,326        | \$27,488          | \$28,140            | \$7,122                | \$9,274                  | 2.4%                 | 30.2%               | 33.0%               | 4.8x       | 4.7x  | 18.4x    | 14.2x |
| Mean  |        | \$100,993             | (\$1,598)   | \$109             | \$99,545         | \$18,153          | \$18,636            | \$5,449                | \$7,080                  | 4.4%                 | 65.9%               | 34.0%               | 6.7x       | 6.3x  | 38.7x    | 29.5x |
| Median                                      |        | \$101,360             | (\$1,251)   | \$0               | \$102,331        | \$11,793          | \$13,190            | \$2,262                | \$3,504                  | 3.3%                 | 44.2%               | 33.0%               | 5.9x       | 5.6x  | 21.8x    | 14.2x |
| Amazon AWS                                  |        |                       |             |                   | <b>\$448,848</b> | <b>\$23,139</b>   | <b>\$78,819</b>     |                        |                          |                      |                     |                     |            |       |          |       |
| Amazon AWS (min)                            |        |                       |             |                   | \$396,321        |                   |                     |                        |                          |                      |                     |                     |            |       |          |       |
| Amazon AWS (max)                            |        |                       |             |                   | \$448,848        |                   |                     |                        |                          |                      |                     |                     |            |       |          |       |

Figure 3.22 Comparable valuation Analysis

- Enterprise Value of Amazon's Advertising Business is: \$204 Billion.
- Enterprise Value of Amazon's AWS Business is: \$448 Billion.

| Comps Analysis                                |        |                       |          |                   |                  |                   |                     |                        |                          |                      |                     |                     |     |           |     |         |
|---|--------|-----------------------|----------|-------------------|------------------|-------------------|---------------------|------------------------|--------------------------|----------------------|---------------------|---------------------|-----|-----------|-----|---------|
| <i>(in millions, except per share data)</i>   |        |                       |          |                   |                  |                   |                     |                        |                          |                      |                     |                     |     |           |     |         |
| Company Name                                  | Symbol | Market Data           |          |                   |                  | Financial Data    |                     |                        |                          |                      |                     | EV/Revenue          |     | EV/EBITDA |     |         |
|   |        | Market Capitalization | Net Debt | Minority Interest | Enterprise Value | LTM Total Revenue | 2021E Total Revenue | LTM EBITDA (excl. SBC) | 2021E EBITDA (excl. SBC) | 2021E Revenue Growth | 2021E EBITDA Growth | 2021E EBITDA Margin | LTM | 2021E     | LTM | 2021E   |
| <b>Subscription</b>                           |        |                       |          |                   |                  |                   |                     |                        |                          |                      |                     |                     |     |           |     |         |
| <b>Intrinsic Value</b>                        |        |                       |          |                   |                  |                   |                     |                        |                          |                      |                     |                     |     |           |     |         |
| Amazon Prime                                  |        |                       |          | \$301,213         | \$13,385         | \$37,652          |                     |                        |                          |                      |                     |                     |     |           |     |         |
| <b>AMZN Sum-Of-The-Parts (SOTP) Valuation</b> |        |                       |          |                   |                  |                   |                     |                        |                          |                      |                     |                     |     |           |     |         |
| AMZN Total (2019E Revenue)                    |        | \$1,697,469           | \$17,454 | \$0               | \$1,714,923      | \$220,957         | \$439,354           |                        |                          |                      |                     |                     |     |           |     |         |
| AMZN Target Price                             |        |                       |          |                   |                  |                   |                     |                        |                          |                      |                     |                     |     |           |     | \$3,368 |

Figure 3.22 Comparable valuation Analysis

- Enterprise Value of Amazon’s Subscription Business is: \$301 Billion.
- Sum of the Parts Value of Amazon’s Business is: \$ 1.714 Trillion.
- Calculation of Target Price: = Enterprise Value – Debt / Outstanding no. of Shares  
 = Equity Value (Market Capitalization) / No. of Shares  
 = \$1.697 Trillion / 504 Million Shares  
 = \$3,368

## 3.2 Qualitative Analysis:

### (Management Analysis)

#### Snapshot of Companies latest 10-k Financial Statements:

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Figure 3.23 Snapshot of Companies latest Financial statements

The Qualitative Analysis of the stock includes:

- Companies Transparency regarding factors like: Risk Disclosure.
- Transparency in disclosure of Ownership, Executives Compensation & Corporate Governance.
- Disclosure of Operational Segments Performance.
- Disclosure in Management Discussion & Analysis.
- Transparency in Disclosure of Related Party Transactions.
- Disclosures in Notes to Consolidated Financial Statements.

\*All the Snapshots in Qualitative Analysis section have been taken from the Financial Statement FY 18 & 19 And, Letter to Shareholders dated: May 1<sup>st</sup> 2019. \*



# (I) Transparency in Risk Disclosure:

## Snapshots from Financial Statements:

### Item 1A. Risk Factors

Please carefully consider the following discussion of significant factors, events, and uncertainties that make an investment in our securities risky. The events and consequences discussed in these risk factors could, in circumstances we may or may not be able to accurately predict, recognize, or control, have a material adverse effect on our business, growth, reputation, prospects, financial condition, operating results (including components of our financial results), cash flows, liquidity, and stock price. These risk factors do not identify all risks that we face; our operations could also be affected by factors, events, or uncertainties that are not presently known to us or that we currently do not consider to present significant risks to our operations. In addition, the global economic climate amplifies many of these risks.

#### **We Face Intense Competition**

Our businesses are rapidly evolving and intensely competitive, and we have many competitors across geographies, including cross-border competition, and in different industries, including physical, e-commerce, and omnichannel retail, e-commerce services, web and infrastructure computing services, electronic devices, digital content, advertising, grocery, and transportation and logistics services. Some of our current and potential competitors have greater resources, longer histories, more customers, and/or greater brand recognition, particularly with our newly-launched products and services and in our newer geographic regions. They may secure better terms from vendors, adopt more aggressive pricing, and devote more resources to technology, infrastructure, fulfillment, and marketing.

Competition continues to intensify, including with the development of new business models and the entry of new and well-funded competitors, and as our competitors enter into business combinations or alliances and established companies in other market segments expand to become competitive with our business. In addition, new and enhanced technologies, including search, web and infrastructure computing services, digital content, and electronic devices continue to increase our competition. The Internet facilitates competitive entry and comparison shopping, which enhances the ability of new, smaller, or lesser known businesses to compete against us. As a result of competition, our product and service offerings may not be successful, we may fail to gain or may lose business, and we may be required to increase our spending or lower prices, any of which could materially reduce our sales and profits.

#### **Our Expansion Places a Significant Strain on our Management, Operational, Financial, and Other Resources**

We are continuing to rapidly and significantly expand our global operations, including increasing our product and service offerings and scaling our infrastructure to support our retail and services businesses. The complexity of the current scale of our business can place significant strain on our management, personnel, operations, systems, technical performance, financial resources, and internal financial control and reporting functions, and our expansion increases these factors. Failure to manage growth effectively could damage our reputation, limit our growth, and negatively affect our operating results.

#### **Our Expansion into New Products, Services, Technologies, and Geographic Regions Subjects Us to Additional Risks**

We may have limited or no experience in our newer market segments, and our customers may not adopt our product or service offerings. These offerings, which can present new and difficult technology challenges, may subject us to claims if customers of these offerings experience service disruptions or failures or other quality issues. In addition, profitability, if any, in our newer activities may not meet our expectations, and we may not be successful enough in these newer activities to recoup our investments in them. Failure to realize the benefits of amounts we invest in new technologies, products, or services could result in the value of those investments being written down or written off.

#### **We Experience Significant Fluctuations in Our Operating Results and Growth Rate**

We are not always able to accurately forecast our growth rate. We base our expense levels and investment plans on sales estimates. A significant portion of our expenses and investments is fixed, and we are not always able to adjust our spending quickly enough if our sales are less than expected.

Our revenue growth may not be sustainable, and our percentage growth rates may decrease. Our revenue and operating profit growth depends on the continued growth of demand for the products and services offered by us or our sellers, and our business is affected by general economic and business conditions worldwide. A softening of demand, whether caused by changes in customer preferences or a weakening of the U.S. or global economies, may result in decreased revenue or growth.

Our sales and operating results will also fluctuate for many other reasons, including due to factors described elsewhere in this section and the following:

- our ability to retain and increase sales to existing customers, attract new customers, and satisfy our customers' demands;

#### **The Seasonality of Our Retail Business Places Increased Strain on Our Operations**

We expect a disproportionate amount of our retail sales to occur during our fourth quarter. Our failure to stock or restock popular products in sufficient amounts such that we fail to meet customer demand could significantly affect our revenue and our future growth. When we overstock products, we may be required to take significant inventory markdowns or write-offs and incur commitment costs, which could materially reduce profitability. We regularly experience increases in our net shipping cost due to complimentary upgrades, split-shipments, and additional long-zone shipments necessary to ensure timely delivery for the holiday season. If too many customers access our websites within a short period of time due to increased demand, we may experience system interruptions that make our websites unavailable or prevent us from efficiently fulfilling orders, which may reduce the volume of goods we offer or sell and the attractiveness of our products and services. In addition, we may be unable to adequately staff our fulfillment network and customer service centers during these peak periods and delivery and other fulfillment companies and customer service co-sourcers may be unable to meet the seasonal demand. Risks described elsewhere in this Item 1A relating to fulfillment network optimization and inventory are magnified during periods of high demand.

We generally have payment terms with our retail vendors that extend beyond the amount of time necessary to collect proceeds from our consumer customers. As a result of holiday sales, as of December 31 of each year, our cash, cash equivalents, and marketable securities balances typically reach their highest level (other than as a result of cash flows provided by or used in investing and financing activities). This operating cycle results in a corresponding increase in accounts payable as of December 31. Our accounts payable balance generally declines during the first three months of the year, resulting in a corresponding decline in our cash, cash equivalents, and marketable securities balances.

#### **Our Commercial Agreements, Strategic Alliances, and Other Business Relationships Expose Us to Risks**

We provide physical, e-commerce, and omnichannel retail and other services to businesses through commercial agreements, strategic alliances, and business relationships. Under these agreements, we provide web services, technology, fulfillment, computing, digital storage, and other services, as well as enable sellers to offer products or services through our stores. These arrangements are complex and require substantial infrastructure capacity, personnel, and other resource commitments, which may limit the amount of business we can service. We may not be able to implement, maintain, and develop the components of these commercial relationships, which may include web services, fulfillment, customer service, inventory management, tax collection, payment processing, hardware, content, and third-party software, and engaging third parties to perform services. The amount of compensation we receive under certain of our commercial agreements is partially dependent on the volume of the other company's sales. Therefore, when the other company's offerings are not successful, the compensation we receive may be lower than expected or the agreement may be terminated. Moreover, we may not be able to enter into additional or alternative commercial relationships and strategic alliances on favorable terms. We also may be subject to claims from businesses to which we provide these services if we are unsuccessful in implementing, maintaining, or developing these services.

As our agreements terminate, we may be unable to renew or replace these agreements on comparable terms, or at all. We may in the future enter into amendments on less favorable terms or encounter parties that have difficulty meeting their contractual obligations to us, which could adversely affect our operating results.

Our present and future e-commerce services agreements, other commercial agreements, and strategic alliances create additional risks such as:

- disruption of our ongoing business, including loss of management focus on existing businesses;
- impairment of other relationships;
- variability in revenue and income from entering into, amending, or terminating such agreements or relationships; and
- difficulty integrating under the commercial agreements.

#### **Our Business Suffers When We Are Unsuccessful in Making, Integrating, and Maintaining Acquisitions and Investments**

We have acquired and invested in a number of companies, and we may in the future acquire or invest in or enter into joint ventures with additional companies. These transactions create risks such as:

- disruption of our ongoing business, including loss of management focus on existing businesses;
- problems retaining key personnel;
- additional operating losses and expenses of the businesses we acquired or in which we invested;
- the potential impairment of tangible and intangible assets and goodwill, including as a result of acquisitions;

Figure 3.24 Snapshot of Risk Disclosure by Amazon

***We Have Foreign Exchange Risk***

The results of operations of, and certain of our intercompany balances associated with, our international stores and product and service offerings are exposed to foreign exchange rate fluctuations. Due to these fluctuations, operating results may differ materially from expectations, and we may record significant gains or losses on the remeasurement of intercompany balances. As we have expanded our international operations, our exposure to exchange rate fluctuations has increased. We also hold cash equivalents and/or marketable securities in foreign currencies including British Pounds, Euros, and Japanese Yen. When the U.S. Dollar strengthens compared to these currencies, cash equivalents, and marketable securities balances, when translated, may be materially less than expected and vice versa.

***The Loss of Key Senior Management Personnel or the Failure to Hire and Retain Highly Skilled and Other Key Personnel Could Negatively Affect Our Business***

We depend on our senior management and other key personnel, particularly Jeffrey P. Bezos, our President, CEO, and Chairman. We do not have "key person" life insurance policies. We also rely on other highly skilled personnel. Competition for qualified personnel in the technology industry has historically been intense, particularly for software engineers, computer scientists, and other technical staff. The loss of any of our executive officers or other key employees or the inability to hire, train, retain, and manage qualified personnel, could harm our business.

***We Could Be Harmed by Data Loss or Other Security Breaches***

Because we collect, process, store, and transmit large amounts of data, including confidential, sensitive, proprietary, and business and personal information, failure to prevent or mitigate data loss, theft, misuse, or other security breaches or vulnerabilities affecting our or our vendors' or customers' technology, products, and systems, could expose us or our customers to a risk of loss, disclosure, or misuse of such information, adversely affect our operating results, result in litigation, regulatory action (including under privacy or data protection laws), and potential liability for us, deter customers or sellers from using our stores and services, and otherwise harm our business and reputation. We use third-party technology and systems for a variety of reasons, including, without limitation, encryption and authentication technology, employee email, content delivery to customers, back-office support, and other functions. Some of our systems have experienced past security breaches, and

***We Face Risks Related to System Interruption and Lack of Redundancy***

We experience occasional system interruptions and delays that make our websites and services unavailable or slow to respond and prevent us from efficiently accepting or fulfilling orders or providing services to third parties, which may reduce our net sales and the attractiveness of our products and services. Steps we take to add software and hardware, upgrade our systems and network infrastructure, and improve the stability and efficiency of our systems may not be sufficient to avoid system interruptions or delays that could adversely affect our operating results.

Our computer and communications systems and operations in the past have been, or in the future could be, damaged or interrupted due to events such as natural or man-made disasters, extreme weather, geopolitical events and security issues (including terrorist attacks and armed hostilities), computer viruses, physical or electronic break-ins, and similar events or disruptions. Any of these events could cause system interruption, delays, and loss of critical data, and could prevent us from accepting and fulfilling customer orders and providing services, which could make our product and service offerings less attractive and subject us to liability. Our systems are not fully redundant and our disaster recovery planning may not be sufficient. In addition, our insurance may not provide sufficient coverage to compensate for related losses. Any of these events could damage our reputation and be expensive to remedy.

***We Face Significant Inventory Risk***

In addition to risks described elsewhere in this Item 1A relating to fulfillment network and inventory optimization by us and third parties, we are exposed to significant inventory risks that may adversely affect our operating results as a result of seasonality, new product launches, rapid changes in product cycles and pricing, defective merchandise, changes in consumer demand and consumer spending patterns, changes in consumer tastes with respect to our products, spoilage, and other factors. We endeavor to accurately predict these trends and avoid overstocking or understocking products we manufacture and/or sell. Demand for products, however, can change significantly between the time inventory or components are ordered and the date of sale. In addition, when we begin selling or manufacturing a new product, it may be difficult to establish vendor relationships, determine appropriate product or component selection, and accurately forecast demand. The acquisition of certain types of inventory or components requires significant lead-time and prepayment and they may not be returnable. We carry a broad selection and significant inventory levels of certain products, such as consumer electronics, and at times we are unable to sell products in sufficient quantities or to meet demand during the relevant selling seasons. Any one of the inventory risk factors set forth above may adversely affect our operating results.

***We Face Risks Related to Adequately Protecting Our Intellectual Property Rights and Being Accused of Infringing Intellectual Property Rights of Third Parties***

We regard our trademarks, service marks, copyrights, patents, trade dress, trade secrets, proprietary technology, and similar intellectual property as critical to our success, and we rely on trademark, copyright, and patent law, trade secret protection, and confidentiality and/or license agreements with our employees, customers, and others to protect our proprietary rights. Effective intellectual property protection is not available in every country in which our products and services are made available. We also may not be able to acquire or maintain appropriate domain names in all countries in which we do business. Furthermore, regulations governing domain names may not protect our trademarks and similar proprietary rights. We may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon, or diminish the value of our trademarks and other proprietary rights.

We are not always able to discover or determine the extent of any unauthorized use of our proprietary rights. Actions taken by third parties that license our proprietary rights may materially diminish the value of our proprietary rights or reputation. The protection of our intellectual property requires the expenditure of significant financial and managerial resources. Moreover, the steps we take to protect our intellectual property do not always adequately protect our rights or prevent third parties from infringing or misappropriating our proprietary rights. We also cannot be certain that others will not independently develop or otherwise acquire equivalent or superior technology or other intellectual property rights.

We have been subject to, and expect to continue to be subject to, claims and legal proceedings regarding alleged infringement by us of the intellectual property rights of third parties. Such claims, whether or not meritorious, have in the past, and may in the future, result in the expenditure of significant financial and managerial resources, injunctions against us, or significant payments for damages, including to satisfy indemnification obligations or to obtain licenses from third parties who allege that we have infringed their rights. Such licenses may not be available on terms acceptable to us or at all. These risks have been amplified by the increase in third parties whose sole or primary business is to assert such claims.

***We Have a Rapidly Evolving Business Model and Our Stock Price Is Highly Volatile***

We have a rapidly evolving business model. The trading price of our common stock fluctuates significantly in response to, among other risks, the risks described elsewhere in this Item 1A, as well as:

- changes in interest rates;
- conditions or trends in the Internet and the industry segments we operate in;
- quarterly variations in operating results;
- fluctuations in the stock market in general and market prices for Internet-related companies in particular;
- changes in financial estimates by us or decisions to increase or decrease future spending or investment levels;
- changes in financial estimates and recommendations by securities analysts;
- changes in our capital structure, including issuance of additional debt or equity to the public;
- changes in the valuation methodology of, or performance by, other e-commerce or technology companies; and
- transactions in our common stock by major investors and certain analyst reports, news, and speculation.

Volatility in our stock price could adversely affect our business and financing opportunities and force us to increase our cash compensation to employees or grant larger stock awards than we have historically, which could hurt our operating results or reduce the percentage ownership of our existing stockholders, or both.

***Government Regulation Is Evolving and Unfavorable Changes Could Harm Our Business***

We are subject to general business regulations and laws, as well as regulations and laws specifically governing the Internet, physical, e-commerce, and omnichannel retail, digital content, web services, electronic devices, artificial intelligence technologies and services, and other products and services that we offer or sell. These regulations and laws cover taxation, privacy, data protection, pricing, content, copyrights, distribution, transportation, mobile communications, electronic device certification, electronic waste, energy consumption, environmental regulation, electronic contracts and other communications, competition, consumer protection, employment, trade and protectionist measures, web services, the provision of online payment services, registration, licensing, and information reporting requirements, unsecured Internet access to our services or access to our facilities, the design and operation of websites, health, safety, and sanitation standards, the characteristics, legality, and quality of products and services, product labeling, the commercial operation of unmanned aircraft systems, and other matters. It is not clear how existing laws governing issues such as property ownership, libel, data protection, and personal privacy apply to aspects of our operations such as the Internet, e-commerce, digital content, web services, electronic devices, and artificial intelligence technologies and services. A large number of jurisdictions regulate our operations, and the extent, nature, and scope of such regulations is evolving and expanding as the scope of our businesses expand. We are regularly subject to formal and informal reviews and investigations by governments and regulatory authorities under existing laws, regulations, or interpretations or pursuing new and novel approaches to regulate our operations. For example, the European Commission announced that it has opened an investigation to assess whether aspects of our operations with marketplace sellers violate EU competition rules. Unfavorable regulations, laws, decisions, or interpretations by government or regulatory authorities applying those laws and regulations, or inquiries, investigations, or enforcement actions threatened or initiated by them, could cause us to incur substantial costs, expose us to unanticipated civil and criminal liability or penalties (including substantial monetary fines), diminish the demand for, or availability of, our products and services, increase our cost of doing business, require us to change our business practices in a manner materially adverse to our business, damage our reputation, impede our growth, or otherwise have a material effect on our operations.

***Claims, Litigation, Government Investigations, and Other Proceedings May Adversely Affect Our Business and Results of Operations***

As an innovative company offering a wide range of consumer and business products and services around the world, we are regularly subject to actual and threatened claims, litigation, reviews, investigations, and other proceedings, including proceedings by governments and regulatory authorities, involving a wide range of issues, including patent and other intellectual property matters, taxes, labor and employment, competition and antitrust, privacy and data protection, consumer protection, commercial disputes, goods and services offered by us and by third parties, and other matters. The number and scale of these proceedings have increased over time as our businesses have expanded in scope and geographic reach and our products, services, and operations have become more complex and available to, and used by, more people. Any of these types of

Figure 3.24 Snapshot of Risk Disclosure by Amazon

***We Are Subject to Risks Related to Government Contracts and Related Procurement Regulations***

Our contracts with U.S., as well as state, local, and foreign, government entities are subject to various procurement regulations and other requirements relating to their formation, administration, and performance. We are subject to audits and investigations relating to our government contracts, and any violations could result in various civil and criminal penalties and administrative sanctions, including termination of contract, refunding or suspending of payments, forfeiture of profits, payment of fines, and suspension or debarment from future government business. In addition, some of these contracts provide for termination by the government at any time, without cause.

***We Are Subject to Product Liability Claims When People or Property Are Harmed by the Products We Sell or Manufacture***

Some of the products we sell or manufacture expose us to product liability or food safety claims relating to personal injury or illness, death, or environmental or property damage, and can require product recalls or other actions. Third parties who sell products using our services and stores increase our exposure to product liability claims, such as when these sellers do not have sufficient protection from such claims. Although we maintain liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. Although we impose contractual terms on sellers that are intended to prohibit sales of certain type of products, we may not be able to detect, enforce, or collect sufficient damages for breaches of such agreements. In addition, some of our agreements with our vendors and sellers do not indemnify us from product liability.

***We Are Subject to Payments-Related Risks***

We accept payments using a variety of methods, including credit card, debit card, credit accounts (including promotional financing), gift cards, direct debit from a customer's bank account, consumer invoicing, physical bank check, and payment upon delivery. For existing and future payment options we offer to our customers, we currently are subject to, and may become subject to additional, regulations and compliance requirements (including obligations to implement enhanced authentication processes that could result in significant costs and reduce the ease of use of our payments products), as well as fraud. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower profitability. We rely on third parties to provide certain Amazon-branded payment methods and payment processing services, including the processing of credit cards, debit cards, electronic checks, and promotional financing. In each case, it could disrupt our business if these companies become unwilling or unable to provide these services to us. We also offer co-branded credit card programs, which could adversely affect our operating results if renewed on less favorable terms or terminated. We are also subject to payment card association operating rules, including data security rules, certification requirements, and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. Failure to comply with these rules or requirements, as well as any breach, compromise, or failure to otherwise detect or prevent fraudulent activity involving our data security systems, could result in our being liable for card issuing banks' costs, subject to fines and higher transaction fees, and loss of our ability to accept credit and debit card payments from our customers, process electronic funds transfers, or facilitate other types of online payments, and our business and operating results could be adversely affected.

In addition, we provide regulated services in certain jurisdictions because we enable customers to keep account balances with us and transfer money to third parties, and because we provide services to third parties to facilitate payments on their behalf. Jurisdictions subject us to requirements for licensing, regulatory inspection, bonding and capital maintenance, the use, handling, and segregation of transferred funds, consumer disclosures, maintaining or processing data, and authentication. We are also subject to or voluntarily comply with a number of other laws and regulations relating to payments, money laundering, international money transfers, privacy and information security, and electronic fund transfers. If we were found to be in violation of applicable laws or regulations, we could be subject to additional requirements and civil and criminal penalties, or forced to cease providing certain services.

***We Are Impacted by Fraudulent or Unlawful Activities of Sellers***

The law relating to the liability of online service providers is currently unsettled. In addition, governmental agencies have in the past and could in the future require changes in the way this business is conducted. Under our seller programs, we maintain policies and processes designed to prevent sellers from collecting payments, fraudulently or otherwise, when buyers never receive the products they ordered or when the products received are materially different from the sellers' descriptions, and to prevent sellers in our stores or through other stores from selling unlawful, counterfeit, pirated, or stolen goods, selling

Figure 3.24 Snapshot of Risk Disclosure by Amazon

Analyst Commentary:

After Analyzing the Financial Statements of Last 2 years, the company is highly transparent in disclosure of Risk related to its operations, such as:

- High Competition.
- Expansion Places a Significant Strain on Companies Management, Operational, Financial, and Other Resources.
- Expansion into New Products, Services, Technologies, and Geographic Regions Subjects the company to Additional Risks.
- Significant Fluctuations in Companies Operating Results and Growth Rate.
- Seasonality of Companies Retail Business Places Increased Strain on Our Operations.
- Commercial Agreements, Strategic Alliances, and Other Business Relationships Expose company to Risks.
- Companies Foreign Exchange Risk.
- Companies Data Loss or Other Security Breaches.
- Significant Inventory Risk.
- Risks Related to Adequately Protecting Companies Intellectual Property Rights and Being Accused of Infringing Intellectual Property Rights of Third Parties.
- Rapidly Evolving Business Model and Companies Stock Price Is Highly Volatile.
- Claims, Litigation, Government Investigations, and Other Proceedings May Adversely Affect Companies Business and Results of Operations.

## (II) Transparency in Disclosure of Ownership, Executives Compensation & Corporate Governance:

Snapshot from Letter to Shareholders (Dated May 1<sup>st</sup> 2019):

### BENEFICIAL OWNERSHIP OF SHARES

The following table sets forth certain information regarding the beneficial ownership of our common stock as of February 25, 2019 (except as otherwise indicated) by (i) each person or entity known by us to beneficially own more than 5% of our common stock, (ii) each director, (iii) each executive officer for whom compensation information is given in the Summary Compensation Table in this Proxy Statement, and (iv) all directors and executive officers as a group. Except as otherwise indicated, and subject to any interests of the reporting person's spouse, we believe that the beneficial owners of common stock listed below, based on information furnished by such owners, have sole voting and investment power with respect to such shares. As of February 25, 2019 we had 491,759,743 shares of common stock outstanding.

| Name and Address of Beneficial Owner                             | Amount and Nature of Beneficial Ownership | Percent of Class |
|--|---|------------------|
| Jeffrey P. Bezos<br>410 Terry Avenue North, Seattle, WA 98109    | 78,814,170                                | 16.0%            |
| The Vanguard Group, Inc.<br>100 Vanguard Blvd, Malvern, PA 19355 | 30,528,310(1)                             | 6.2%             |
| BlackRock, Inc.<br>55 East 52nd Street, New York, NY 10055       | 25,807,758(2)                             | 5.2%             |
| Tom A. Alberg  | 15,648(3)                                 | *                |
| Rosalind G. Brewer   | —   | *                |
| Jamie S. Gorelick  | 6,448                                     | *                |
| Daniel P. Huttenlocher   | 573                                       | *                |
| Judith A. McGrath  | 2,324                                     | *                |
| Indra K. Nooyi   | —   | *                |
| Jonathan J. Rubinstein   | 7,893                                     | *                |
| Thomas O. Ryder  | 9,241                                     | *                |
| Patricia Q. Stonesifer   | 6,486                                     | *                |
| Wendell P. Weeks   | 1,365                                     | *                |
| Brian T. Olsavsky  | 1,068                                     | *                |
| Jeffrey M. Blackburn   | 67,459(4)                                 | *                |
| Andrew R. Jassy  | 95,568                                    | *                |
| Jeffrey A. Wilke   | 71,515(5)                                 | *                |
| All directors and executive officers as a group (17 persons)     | 79,108,731(6)                             | 16.1%            |

\* Less than 1%.

At

Figure 3.25 Disclosure of Ownership

### Analyst Commentary:

Company is evidently very transparent in disclosing its shareholding patterns within the organization.

Such transparency is beneficial for the current investors & potential investors.

Snapshot from Letter to Shareholders (Dated May 1<sup>st</sup> 2019):

**2018 Summary Compensation Table**

| <u>Name and Principal Position</u>                          | <u>Year</u> | <u>Salary</u> | <u>Stock Awards(1)</u> | <u>All Other Compensation</u> | <u>Total</u> |
|---|-------------|---------------|------------------------|-------------------------------|--------------|
| <b>Jeffrey P. Bezos</b><br>Chief Executive Officer          | 2018        | \$ 81,840     | \$ —                   | \$ 1,600,000(2)               | \$ 1,681,840 |
|   | 2017        | 81,840        | —                      | 1,600,000                     | 1,681,840    |
|   | 2016        | 81,840        | —                      | 1,600,000                     | 1,681,840    |
| <b>Brian T. Olsavsky</b><br>SVP and Chief Financial Officer | 2018        | 160,000       | 6,770,149              | 3,200(3)                      | 6,933,349    |
|   | 2017        | 160,000       | —                      | 3,200                         | 163,200      |
|   | 2016        | 160,000       | 4,395,447              | 3,200                         | 4,558,647    |
| <b>Jeffrey M. Blackburn</b><br>SVP, Business Development    | 2018        | 175,000       | 10,221,162             | 3,500(3)                      | 10,399,662   |
|   | 2017        | 175,000       | —                      | 3,500                         | 178,500      |
|   | 2016        | 171,250       | 22,019,668             | 3,425                         | 22,194,343   |
| <b>Andrew R. Jassy</b><br>CEO Amazon Web Services           | 2018        | 175,000       | 19,466,434             | 91,232(4)                     | 19,732,666   |
|   | 2017        | 175,000       | —                      | 19,447                        | 194,447      |
|   | 2016        | 175,000       | 35,431,144             | 3,500                         | 35,609,644   |
| <b>Jeffrey A. Wilke</b><br>CEO Worldwide Consumer           | 2018        | 175,000       | 19,466,434             | 80,613(4)                     | 19,722,047   |
|   | 2017        | 175,000       | —                      | 9,781                         | 184,781      |
|   | 2016        | 175,000       | 32,779,614             | 3,500                         | 32,958,114   |

Figure 3.26 Disclosure of Management Compensation

Analyst Commentary:

After the analysis of company's executive compensation policy, the following statements can be stated:

- 5
  - Company has tied its executive's compensation to the long-term performance of the company through issuing Restricted stock units that will provide greater compensations in future. Keeping the executive's base salary low.
  - This has let Amazon retain their talented & capable employees.
  - And, has also let Amazon align their Executive's vision with the Shareholder's Vision.
  - This has actually made Amazon Stock Price to shoot up from \$382 to \$1982 (As on Date of Report Compilation), in last 5 years, generating huge value for Stockholders.

## Snapshot from Letter to Shareholders (Dated May 1<sup>st</sup> 2019):

### **Corporate Governance**

#### **General**

*Board Leadership.* The Board is responsible for the control and direction of the Company. The Board represents the shareholders and its primary purpose is to build long-term shareholder value. The Chair of the Board is selected by the Board and currently is the CEO, Jeff Bezos. The Board believes that this leadership structure is appropriate given Mr. Bezos' role in founding Amazon and his significant ownership stake. The Board believes that this leadership structure improves the Board's ability to focus on key policy and operational issues and helps the Company operate in the long-term interests of shareholders. In addition, the independent directors on the Board have appointed a lead director from the Board's independent directors, currently Jonathan J. Rubinstein, in order to promote independent leadership of the Board. The lead director presides over the executive sessions of the independent directors, chairs Board meetings in the Chair's absence, and provides direction on agendas, schedules, information, and materials for Board meetings that will be most helpful to the independent directors. In addition, the lead director confers from time to time with the Chair of the Board and the independent directors and reviews, as appropriate, the annual schedule of regular Board meetings and major Board meeting agenda topics. The guidance and direction provided by the lead director reinforce the Board's independent oversight of management and contribute to communication among members of the Board.

*Director Independence.* The Board has determined that the following directors are independent as defined by Nasdaq rules: Mr. Alberg, Ms. Brewer, Ms. Gorelick, Mr. Huttenlocher, Ms. McGrath, Ms. Nooyi, Mr. Rubinstein, Mr. Ryder, Ms. Stonesifer, and Mr. Weeks. In addition, the Board determined that John Seely Brown, who served as a director through May 2018, was independent during the time he served as a director. In assessing directors' independence, the Board took into account certain transactions, relationships, and arrangements involving some of the directors and concluded that such transactions, relationships, and arrangements did not impair the independence of the director. For Ms. Brewer and Mr. Weeks, the Board considered payments in the past three years in the ordinary course of business from the Company to Starbucks Corporation and Corning Incorporated, respectively, or their affiliates. All such payments were not significant for any of these companies. For Mr. Alberg, the Board considered that Amazon and its executive officers have in the past and may in the future invest in investment funds managed by entities where Mr. Alberg is a managing director or partner or in companies in which those funds invest, and that Amazon has in the past and may in the future engage in transactions with companies in which these funds have invested. For Mr. Ryder, the Board considered that his son-in-law has been employed with Amazon since 2008 in a non-officer and non-strategic position, as disclosed in "Certain Relationships and Related Person Transactions."

*Risk Oversight.* As part of regular Board and committee meetings, the directors oversee executives' management of risks relevant to the Company. While the full Board has overall responsibility for risk oversight, the Board has delegated responsibility related to certain risks to the Audit Committee and the Leadership Development and Compensation Committee. The Audit Committee is responsible for overseeing management of risks related to our financial statements and financial reporting process, data privacy and security, business continuity, and operational risks, the qualifications, independence, and performance of our independent auditors, the performance of our internal audit function, legal and regulatory matters, and our compliance policies and procedures. The Leadership Development and Compensation Committee is responsible for overseeing management of risks related to succession planning and compensation for our executive officers and our overall compensation program, including our equity-based compensation plans, as well as risks related to human resources matters, including workplace discrimination and harassment. The full Board regularly reviews reports from management on various aspects of our business, including related risks and tactics and strategies for addressing them. At least annually, the Board reviews our CEO succession planning as described in our Board of Directors Guidelines on Significant Corporate Governance Issues.

Figure 3.27 Disclosure of Corporate Governance

#### Analyst Commentary:

The corporate governance of the company is well defined & Roles of Executives are well defined.

### (III) Transparency in Disclosure of Operational Segments Performance:

#### Snapshot from Financial Statement:

##### *North America*

The North America segment primarily consists of amounts earned from retail sales of consumer products (including from sellers) and subscriptions through North America-focused online and physical stores. This segment includes export sales from these online stores.

##### *International*

The International segment primarily consists of amounts earned from retail sales of consumer products (including from sellers) and subscriptions through internationally-focused online stores. This segment includes export sales from these internationally-focused online stores (including export sales from these online stores to customers in the U.S., Mexico, and Canada), but excludes export sales from our North America-focused online stores.

##### *AWS*

The AWS segment consists of amounts earned from global sales of compute, storage, database, and other service offerings for start-ups, enterprises, government agencies, and academic institutions.

Information on reportable segments and reconciliation to consolidated net income (loss) is as follows (in millions):

|   | Year Ended December 31, |            |            |
|---|-------------------------|------------|------------|
|   | 2017                    | 2018       | 2019       |
| <b>North America</b>                          |                         |            |            |
| Net sales                                     | \$ 106,110              | \$ 141,366 | \$ 170,773 |
| Operating expenses                            | 103,273                 | 134,099    | 163,740    |
| Operating income                              | \$ 2,837                | \$ 7,267   | \$ 7,033   |
| <b>International</b>                          |                         |            |            |
| Net sales                                     | \$ 54,297               | \$ 65,866  | \$ 74,723  |
| Operating expenses                            | 57,359                  | 68,008     | 76,416     |
| Operating income (loss)                       | \$ (3,062)              | \$ (2,142) | \$ (1,693) |
| <b>AWS</b>                                    |                         |            |            |
| Net sales                                     | \$ 17,459               | \$ 25,655  | \$ 35,026  |
| Operating expenses                            | 13,128                  | 18,359     | 25,825     |
| Operating income                              | \$ 4,331                | \$ 7,296   | \$ 9,201   |
| <b>Consolidated</b>                           |                         |            |            |
| Net sales                                     | \$ 177,866              | \$ 232,887 | \$ 280,522 |
| Operating expenses                            | 173,760                 | 220,466    | 265,981    |
| Operating income                              | 4,106                   | 12,421     | 14,541     |
| Total non-operating income (expense)          | (300)                   | (1,160)    | (565)      |
| Provision for income taxes                    | (769)                   | (1,197)    | (2,374)    |
| Equity-method investment activity, net of tax | (4)                     | 9          | (14)       |
| Net income                                    | \$ 3,033                | \$ 10,073  | \$ 11,588  |

Figure 3.28 Disclosure of Operations Segment Performance

#### Analyst Commentary:

- Companies Net sales & Operating Income from “North America” has seen a Meteoric rise. But, a matter of concern is Operating expenses are also Increasing.
- Companies Net sales from “International” has seen a steady rise. But Operating expenses are also Increasing faster than Net sales hence, there is Operating loss which is subsequently Declining.
- Companies Net sales & Operating Income from “AWS” has seen a Meteoric rise. But, a matter of concern is Operating Expenses.
- Companies Overall Net Sales, Operating Income & Net income have increased tremendously mostly, due to contribution from North America Segment & Performance from AWS is also improving exponentially. Though, Rising Operating Expenses remains a matter of concern.

## (IV) Disclosures in Management Discussion & Analysis:

### Snapshot from Financial Statement:

#### Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

##### **Forward-Looking Statements**

This Annual Report on Form 10-K includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including statements regarding guidance, industry prospects, or future results of operations or financial position, made in this Annual Report on Form 10-K are forward-looking. We use words such as anticipates, believes, expects, future, intends, and similar expressions to identify forward-looking statements. Forward-looking statements reflect management's current expectations and are inherently uncertain. Actual results could differ materially for a variety of reasons, including, among others, fluctuations in foreign exchange rates, changes in global economic conditions and customer spending, world events, the rate of growth of the Internet, online commerce, and cloud services, the amount that Amazon.com invests in new business opportunities and the timing of those investments, the mix of products and services sold to customers, the mix of net sales derived from products as compared with services, the extent to which we owe income or other taxes, competition, management of growth, potential fluctuations in operating results, international growth and expansion, the outcomes of claims, litigation, government investigations, and other proceedings, fulfillment, sortation, delivery, and data center optimization, risks of inventory management, seasonality, the degree to which we enter into, maintain, and develop commercial agreements, proposed and completed acquisitions and strategic transactions, payments risks, and risks of fulfillment throughput and productivity. In addition, the global economic climate amplifies many of these risks. These risks and uncertainties, as well as other risks and uncertainties that could cause our actual results to differ significantly from management's expectations, are described in greater detail in Item 1A of Part I, "Risk Factors."

##### **Overview**

*Our primary source of revenue is the sale of a wide range of products and services to customers.* The products offered through our stores include merchandise and content we have purchased for resale and products offered by third-party sellers, and we also manufacture and sell electronic devices and produce media content. Generally, we recognize gross revenue from items we sell from our inventory as product sales and recognize our net share of revenue of items sold by third-party sellers as service sales. We seek to increase unit sales across our stores, through increased product selection, across numerous product categories. We also offer other services such as compute, storage, and database offerings, fulfillment, advertising, publishing, and digital content subscriptions.

*Our financial focus is on long-term, sustainable growth in free cash flow.* Free cash flows are driven primarily by increasing operating income and efficiently managing working capital and cash capital expenditures, including our decision to purchase or lease property and equipment. Increases in operating income primarily result from increases in sales of products and services and efficiently managing our operating costs, partially offset by investments we make in longer-term strategic initiatives, including capital expenditures focused on improving the customer experience. To increase sales of products and services, we focus on improving all aspects of the customer experience, including lowering prices, improving availability, offering faster delivery and performance times, increasing selection, producing original content, increasing product categories and service offerings, expanding product information, improving ease of use, improving reliability, and earning customer trust.

*We seek to reduce our variable costs per unit and work to leverage our fixed costs.* Our variable costs include product and content costs, payment processing and related transaction costs, picking, packaging, and preparing orders for shipment, transportation, customer service support, costs necessary to run AWS, and a portion of our marketing costs. Our fixed costs include the costs necessary to build and run our technology infrastructure; to build, enhance, and add features to our online stores, web services, electronic devices, and digital offerings; and to build and optimize our fulfillment and delivery networks and related facilities. Variable costs generally change directly with sales volume, while fixed costs generally are dependent on the timing of capacity needs, geographic expansion, category expansion, and other factors. To decrease our variable costs on a per unit basis and enable us to lower prices for customers, we seek to increase our direct sourcing, increase discounts from suppliers, and reduce defects in our processes. To minimize unnecessary growth in fixed costs, we seek to improve process efficiencies and maintain a lean culture.

*Because of our model we are able to turn our inventory quickly and have a cash-generating operating cycle.* On average, our high inventory velocity means we generally collect from consumers before our payments to suppliers come due. We expect variability in inventory turnover over time since it is affected by numerous factors, including our product mix, the mix of sales by us and by third-party sellers, our continuing focus on in-stock inventory availability and selection of product offerings, our investment in new geographies and product lines, and the extent to which we choose to utilize third-party fulfillment providers. We also expect some variability in accounts payable days over time since they are affected by several factors, including the mix of product sales, the mix of sales by third-party sellers, the mix of suppliers, seasonality, and changes in payment terms over time, including the effect of balancing pricing and timing of payment terms with suppliers.

*We expect spending in technology and content will increase over time as we add computer scientists, designers, software and hardware engineers, and merchandising employees.* Our technology and content investment and capital spending projects often support a variety of product and service offerings due to geographic expansion and the cross-functionality of our systems and operations. We seek to invest efficiently in several areas of technology and content, including AWS, and expansion of new and existing product categories and service offerings, as well as in technology infrastructure to enhance the customer experience and improve our process efficiencies. We believe that advances in technology, specifically the speed and reduced cost of processing power, the advances of wireless connectivity, and the practical applications of artificial intelligence and machine learning, will continue to improve the consumer experience on the Internet and increase its ubiquity in people's lives. To best take advantage of these continued advances in technology, we are investing in initiatives to build and deploy innovative and efficient software and electronic devices. We are also investing in AWS, which offers a broad set of global compute, storage, database, and other service offerings to developers and enterprises of all sizes.

*We seek to efficiently manage shareholder dilution while maintaining the flexibility to issue shares for strategic purposes, such as financings, acquisitions, and aligning employee compensation with shareholders' interests.* We utilize restricted stock units as our primary vehicle for equity compensation because we believe this compensation model aligns the long-term interests of our shareholders and employees. In measuring shareholder dilution, we include all vested and unvested stock awards outstanding, without regard to estimated forfeitures. Total shares outstanding plus outstanding stock awards were 507 million and 512 million as of December 31, 2018 and 2019.

*Our financial reporting currency is the U.S. Dollar and changes in foreign exchange rates significantly affect our reported results and consolidated trends.* For example, if the U.S. Dollar weakens year-over-year relative to currencies in our international locations, our consolidated net sales and operating expenses will be higher than if currencies had remained constant. Likewise, if the U.S. Dollar strengthens year-over-year relative to currencies in our international locations, our consolidated net sales and operating expenses will be lower than if currencies had remained constant. We believe that our increasing diversification beyond the U.S. economy through our growing international businesses benefits our shareholders over the long-term. We also believe it is useful to evaluate our operating results and growth rates before and after the effect of currency changes.

In addition, the remeasurement of our intercompany balances can result in significant gains and losses associated with the effect of movements in foreign currency exchange rates. Currency volatilities may continue, which may significantly impact (either positively or negatively) our reported results and consolidated trends and comparisons.

Figure 3.29 Disclosure in Management Discussion & Analysis



Analyst Commentary:

In this section, the company talked on lengths about its:

- Financial performance in relation to past years.
- Primary source of revenue which is the sale of a wide range of products and services to customers.
- How company's financial focus is on long-term & sustainable growth in free cash flows.
- How the company is able to convert inventories quickly because of its business model & is able to raise its Net Income.
- How the company is able to reduce its various cost efficiently & leverage its fixed costs.
- Future projections for the upcoming Quarter of March 2020, the projections for Net sales & Operating income seemed Genuine because of its relative past performance in previous quarters. The track of the company has been quite consistent in relation to its forecasts.

## **(V) Disclosures regarding Related Party transactions:**

Snapshot from Letter to Shareholders (Dated May 1<sup>st</sup> 2019):

### **CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS**

Justin Burks, an employee of Amazon, is the son-in-law of Thomas O. Ryder, a director. In 2018, Mr. Burks earned \$160,000 in salary. He was also granted a restricted stock unit award with respect to 88 shares, vesting over 2.6 years. His compensation is consistent with the total compensation provided to other employees of the same level with similar responsibilities.

Jeff Bezos, our President, CEO, and Chairman, owns Blue Origin, an aerospace manufacturer and spaceflight services company, and entities that publish The Washington Post, and we do business in the ordinary course with each company. In 2018, Amazon sold approximately \$1.9 million of consumer goods to Blue Origin under a line of credit. In 2018, Amazon purchased or obtained approximately \$2.3 million of advertising from, and paid approximately \$6.2 million related to digital content to, the Washington Post entities, and the Washington Post entities paid Amazon approximately \$130,000 for subscriber services in 2018, all on terms negotiated on an arms-length basis.

The Audit Committee reviews and, as appropriate, approves and ratifies "related person" transactions, defined as any transaction, arrangement, or relationship (including any indebtedness or guarantee of indebtedness), or any series of similar transactions, arrangements, or relationships, in which (a) the aggregate amount involved will or may be expected to exceed \$120,000, (b) Amazon is a participant, and (c) any Related Person has or will have a direct or indirect material interest (other than solely as a result of being a director or trustee (or any similar position) or a less than 10 percent beneficial owner of another entity). A "Related Person" is any (a) person who is an executive officer, director, or nominee for election as a director of Amazon, (b) greater than 5 percent beneficial owner of our outstanding common stock, or (c) Immediate Family Member of any of the foregoing. An "Immediate Family Member" is any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, and any person (other than a tenant or employee) sharing the household of a person. We do not have written policies or procedures for related person transactions but rely on the Audit Committee's exercise of business judgment, consistent with Delaware law, in reviewing such transactions.

Figure 3.30 Disclosures regarding related party discussion

### Analyst Commentary:

- All the rumors regarding related party transactions were appropriately addressed in the document titled: 'Letter to Shareholders' published on May 1<sup>st</sup> 2019.
- Amazon has addressed all the related party transactions, which signifies transparency in its dealings from the company.

## (VI) Disclosures in Notes to Consolidated Financial Statements:

### Snapshot from Financial Statements:

AMAZON.COM, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 1 — DESCRIPTION OF BUSINESS AND ACCOUNTING POLICIES**

**Description of Business**

We seek to be Earth's most customer-centric company. In each of our segments, we serve our primary customer sets, consisting of consumers, sellers, developers, enterprises, and content creators. We serve consumers through our online and physical stores and focus on selection, price, and convenience. We offer programs that enable sellers to sell their products in our stores and fulfill orders through us, and programs that allow authors, musicians, filmmakers, skill and app developers, and others to publish and sell content. We serve developers and enterprises of all sizes through our AWS segment, which offers a broad set of global compute, storage, database, and other service offerings. We also manufacture and sell electronic devices. In addition, we provide services, such as advertising to sellers, vendors, publishers, and authors, through programs such as sponsored ads, display, and video advertising.

We have organized our operations into three segments: North America, International, and AWS. See "Note 10 — Segment Information."

**Prior Period Reclassifications**

Certain prior period amounts have been reclassified to conform to the current period presentation, including the addition of restricted cash to cash and cash equivalents on our consolidated statements of cash flows and the reclassification of long-term capital lease obligations that existed at December 31, 2018 from "Other long-term liabilities" to "Long-term lease liabilities" within the consolidated balance sheets, as a result of the adoption of new accounting guidance. See "Accounting Pronouncements Recently Adopted."

**Principles of Consolidation**

The consolidated financial statements include the accounts of Amazon.com, Inc. and its consolidated entities (collectively, the "Company"), consisting of its wholly-owned subsidiaries and those entities in which we have a variable interest and of which we are the primary beneficiary, including certain entities in India and certain entities that support our seller lending financing activities. Intercompany balances and transactions between consolidated entities are eliminated. The financial results of Whole Foods Market, Inc. ("Whole Foods Market") have been included in our consolidated financial statements from the date of acquisition on August 28, 2017.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent liabilities in the consolidated financial statements and accompanying notes. Estimates are used for, but not limited to, income taxes, useful lives of equipment, commitments and contingencies, valuation of acquired intangibles and goodwill, stock-based compensation forfeiture rates, vendor funding, and inventory valuation. Actual results could differ materially from those estimates. For example, in Q4 2019 we completed a useful life study for our servers and are increasing the useful life from three years to four years for servers in January 2020, which, based on servers that are included in "Property and equipment, net" as of December 31, 2019, will have an anticipated impact to our 2020 operating income of \$2.3 billion.

**Earnings per Share**

Basic earnings per share is calculated using our weighted-average outstanding common shares. Diluted earnings per share is calculated using our weighted-average outstanding common shares including the dilutive effect of stock awards as determined under the treasury stock method. In periods when we have a net loss, stock awards are excluded from our calculation of earnings per share as their inclusion would have an antidilutive effect.

**Revenue**

Revenue is measured based on the amount of consideration that we expect to receive, reduced by estimates for return allowances, promotional discounts, and rebates. Revenue also excludes any amounts collected on behalf of third parties, including sales and indirect taxes. In arrangements where we have multiple performance obligations, the transaction price is allocated to each performance obligation using the relative stand-alone selling price. We generally determine stand-alone selling prices based on the prices charged to customers or using expected cost plus a margin.

A description of our principal revenue generating activities is as follows:

**Retail sales** - We offer consumer products through our online and physical stores. Revenue is recognized when control of the goods is transferred to the customer, which generally occurs upon our delivery to a third-party carrier or, in the case of an Amazon delivery, to the customer.

**Third-party seller services** - We offer programs that enable sellers to sell their products in our stores, and fulfill orders through us. We are not the seller of record in these transactions. The commissions and any related fulfillment and shipping fees we earn from these arrangements are recognized when the services are rendered, which generally occurs upon delivery of the related products to a third-party carrier or, in the case of an Amazon delivery, to the customer.

**Subscription services** - Our subscription sales include fees associated with Amazon Prime memberships and access to content including audiobooks, digital video, digital music, e-books, and other non-AWS subscription services. Prime memberships provide our customers with access to an evolving suite of benefits that represent a single stand-ready obligation. Subscriptions are paid for at the time of or in advance of delivering the services. Revenue from such arrangements is recognized over the subscription period.

**AWS** - Our AWS arrangements include global sales of compute, storage, database, and other services. Revenue is allocated to services using stand-alone selling prices and is primarily recognized when the customer uses these services, based on the quantity of services rendered, such as compute or storage capacity delivered on-demand. Certain services, including compute and database, are also offered as a fixed quantity over a specified term, for which revenue is recognized ratably. Sales commissions we pay in connection with contracts that exceed one year are capitalized and amortized over the contract term.

**Other** - Other revenue primarily includes sales of advertising services, which are recognized as ads are delivered based on the number of clicks or impressions.

**Return Allowances**

Return allowances, which reduce revenue and cost of sales, are estimated using historical experience. Liabilities for return allowances are included in "Accrued expenses and other" and were \$468 million, \$623 million, and \$712 million as of December 31, 2017, 2018, and 2019. Additions to the allowance were \$1.8 billion, \$2.3 billion, and \$2.5 billion and deductions from the allowance were \$1.9 billion, \$2.3 billion, and \$2.5 billion in 2017, 2018, and 2019. Included in "Inventories" on our consolidated balance sheets are assets totaling \$406 million, \$519 million, and \$629 million as of December 31, 2017, 2018, and 2019, for the rights to recover products from customers associated with our liabilities for return allowances.

**Cost of Sales**

Cost of sales primarily consists of the purchase price of consumer products, inbound and outbound shipping costs, including costs related to sortation and delivery centers and where we are the transportation service provider, and digital media content costs where we record revenue gross, including video and music. Shipping costs to receive products from our suppliers are included in our inventory, and recognized as cost of sales upon sale of products to our customers. Payment processing and related transaction costs, including those associated with seller transactions, are classified in "Fulfillment" on our consolidated statements of operations.

Figure 3.31 Disclosures in Notes to Accounts

#### **Vendor Agreements**

We have agreements with our vendors to receive funds primarily for cooperative marketing efforts, promotions, incentives, and volume rebates. We generally consider these amounts received from vendors to be a reduction of the prices we pay for their goods, including property and equipment, or services, and are recorded as a reduction of the cost of inventory, cost of services, or cost of property and equipment. Volume rebates typically depend on reaching minimum purchase thresholds. We evaluate the likelihood of reaching purchase thresholds using past experience and current year forecasts. When volume rebates can be reasonably estimated, we record a portion of the rebate as we make progress towards the purchase threshold.

#### **Fulfillment**

Fulfillment costs primarily consist of those costs incurred in operating and staffing our North America and International segments' fulfillment centers, physical stores, and customer service centers, including costs attributable to buying, receiving, inspecting, and warehousing inventories; picking, packaging, and preparing customer orders for shipment; payment processing and related transaction costs, including costs associated with our guarantee for certain seller transactions; responding to inquiries from customers; and supply chain management for our manufactured electronic devices. Fulfillment costs also include amounts paid to third parties that assist us in fulfillment and customer service operations.

#### **Technology and Content**

Technology and content costs include payroll and related expenses for employees involved in the research and development of new and existing products and services, development, design, and maintenance of our stores, curation and display of products and services made available in our online stores, and infrastructure costs. Infrastructure costs include servers, networking equipment, and data center related depreciation and amortization, rent, utilities, and other expenses necessary to support AWS and other Amazon businesses. Collectively, these costs reflect the investments we make in order to offer a wide variety of products and services to our customers. Technology and content costs are generally expensed as incurred.

#### **Marketing**

Marketing costs primarily consist of advertising and payroll and related expenses for personnel engaged in marketing and selling activities, including sales commissions related to AWS. We pay commissions to third parties when their customer referrals result in sales. We also participate in cooperative advertising arrangements with certain of our vendors, and other third parties.

Advertising and other promotional costs to market our products and services are expensed as incurred and were \$6.3 billion, \$8.2 billion, and \$11.0 billion in 2017, 2018, and 2019.

#### **General and Administrative**

General and administrative expenses primarily consist of costs for corporate functions, including payroll and related expenses; facilities and equipment expenses, such as depreciation and amortization expense and rent; and professional fees and litigation costs.

#### **Stock-Based Compensation**

Compensation cost for all stock awards expected to vest is measured at fair value on the date of grant and recognized over the service period. The fair value of restricted stock units is determined based on the number of shares granted and the quoted price of our common stock. Such value is recognized as expense over the service period, net of estimated forfeitures, using the accelerated method. The estimated number of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. We consider many factors when estimating expected forfeitures, including historical forfeiture experience and employee level.

#### **Other Operating Expense (Income), Net**

Other operating expense (income), net, consists primarily of marketing-related, contract-based, and customer-related intangible asset amortization expense, and expenses related to legal settlements.

#### **Other Income (Expense), Net**

Other income (expense), net, consists primarily of adjustments to and gains on equity securities of \$18 million, \$145 million, and \$231 million in 2017, 2018, and 2019, equity warrant valuation gains (losses) of \$109 million, \$(131) million, and \$11 million in 2017, 2018, and 2019, and foreign currency gains (losses) of \$247 million, \$(206) million, and \$(20) million in 2017, 2018, and 2019.

#### **Income Taxes**

Income tax expense includes U.S. (federal and state) and foreign income taxes. Certain foreign subsidiary earnings are subject to U.S. taxation under the U.S. Tax Act, which also repeals U.S. taxation on the subsequent repatriation of those earnings. We intend to invest substantially all of our foreign subsidiary earnings, as well as our capital in our foreign subsidiaries, indefinitely outside of the U.S. in those jurisdictions in which we would incur significant, additional costs upon repatriation of such amounts.

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered.

Deferred tax assets are evaluated for future realization and reduced by a valuation allowance to the extent we believe they will not be realized. We consider many factors when assessing the likelihood of future realization of our deferred tax assets, including our recent cumulative loss experience and expectations of future earnings, capital gains and investment in such jurisdiction, the carry-forward periods available to us for tax reporting purposes, and other relevant factors.

We utilize a two-step approach to recognizing and measuring uncertain income tax positions (tax contingencies). The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not the position will be sustained on audit, including resolution of related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. We consider many factors when evaluating our tax positions and estimating our tax benefits, which may require periodic adjustments and which may not accurately forecast actual outcomes. We include interest and penalties related to our tax contingencies in income tax expense.

#### **Fair Value of Financial Instruments**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability of fair value measures, the following hierarchy prioritizes the inputs to valuation methodologies used to measure fair value:

**Level 1** — Valuations based on quoted prices for identical assets and liabilities in active markets.

**Level 2** — Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

**Level 3** — Valuations based on unobservable inputs reflecting our own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

For our cash, cash equivalents, or marketable securities, we measure the fair value of money market funds and certain marketable equity securities based on quoted prices in active markets for identical assets or liabilities. Other marketable securities were valued either based on recent trades of securities in inactive markets or based on quoted market prices of similar instruments and other significant inputs derived from or corroborated by observable market data. We did not hold significant amounts of cash, cash equivalents, restricted cash, or marketable securities categorized as Level 3 assets as of December 31, 2018 and 2019.

We hold equity warrants giving us the right to acquire stock of other companies. As of December 31, 2018 and 2019, these warrants had a fair value of \$440 million and \$669 million, and are recorded within "Other assets" on our consolidated balance sheets. These assets are primarily classified as Level 2 assets.

#### **Cash and Cash Equivalents**

We classify all highly liquid instruments with an original maturity of three months or less as cash equivalents.

Figure 3.31 Disclosures in Notes to Accounts

#### **Inventories**

Inventories, consisting of products available for sale, are primarily accounted for using the first-in, first-out method, and are valued at the lower of cost and net realizable value. This valuation requires us to make judgments, based on currently available information, about the likely method of disposition, such as through sales to individual customers, returns to product vendors, or liquidations, and expected recoverable values of each disposition category.

We provide Fulfillment by Amazon services in connection with certain of our sellers' programs. Third-party sellers maintain ownership of their inventory, regardless of whether fulfillment is provided by us or the third-party sellers, and therefore these products are not included in our inventories.

We also purchase electronic device components from a variety of suppliers and use several contract manufacturers to provide manufacturing services for our products. During the normal course of business, in order to manage manufacturing lead times and help ensure adequate supply, we enter into agreements with contract manufacturers and suppliers for certain electronic device components. A portion of our reported purchase commitments arising from these agreements consists of firm, non-cancellable commitments. These commitments are based on forecasted customer demand. If we reduce these commitments, we may incur additional costs. We also have firm, non-cancellable commitments for certain products offered in our Whole Foods Market stores.

#### **Accounts Receivable, Net and Other**

Included in "Accounts receivable, net and other" on our consolidated balance sheets are amounts primarily related to customers, vendors, and sellers. As of December 31, 2018 and 2019, customer receivables, net, were \$9.4 billion and \$12.6 billion, vendor receivables, net, were \$3.2 billion and \$4.2 billion, and seller receivables, net, were \$710 million and \$863 million. Seller receivables are amounts due from sellers related to our seller lending program, which provides funding to sellers primarily to procure inventory.

We estimate losses on receivables based on known troubled accounts and historical experience of losses incurred. Receivables are considered impaired and written-off when it is probable that all contractual payments due will not be collected in accordance with the terms of the agreement. The allowance for doubtful accounts was \$348 million, \$495 million, and \$718 million as of December 31, 2017, 2018, and 2019. Additions to the allowance were \$626 million, \$878 million, and \$1.0 billion, and deductions to the allowance were \$515 million, \$731 million, and \$793 million in 2017, 2018, and 2019.

#### **Software Development Costs**

We incur software development costs related to products to be sold, leased, or marketed to external users, internal-use software, and our websites. Software development costs capitalized were not significant for the years presented. All other costs, including those related to design or maintenance, are expensed as incurred.

#### **Financing Obligations**

We record assets and liabilities for estimated construction costs under build-to-suit lease arrangements when we have control over the building during the construction period. If we continue to control the building after the construction period, the arrangement is classified as a financing obligation instead of a lease. The building is depreciated over the shorter of its useful life or the term of the obligation.

If we do not control the building after the construction period ends, the assets and liabilities for construction costs are derecognized, and we classify the lease as either operating or finance.

#### **Goodwill**

We evaluate goodwill for impairment annually or more frequently when an event occurs or circumstances change that indicate the carrying value may not be recoverable. In testing goodwill for impairment, we may elect to utilize a qualitative assessment to evaluate whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If our qualitative assessment indicates that goodwill impairment is more likely than not, we perform a two-step impairment test. We test goodwill for impairment under the two-step impairment test by first comparing the book value of net assets to the fair value of the reporting units. If the fair value is determined to be less than the book value or qualitative factors indicate that it is more likely than not that goodwill is impaired, a second step is performed to compute the amount of impairment as the difference between the estimated fair value of goodwill and the carrying value. We estimate the fair value of the reporting units using discounted cash flows. Forecasts of future cash flows are based on our best estimate of future net sales and operating expenses, based primarily on expected category expansion, pricing, market segment share, and general economic conditions.

We completed the required annual testing of goodwill for impairment for all reporting units as of April 1, 2019, and determined that goodwill is not impaired as the fair value of our reporting units substantially exceeded their book value. There were no events that caused us to update our annual impairment test. See "Note 5 — Acquisitions, Goodwill, and Acquired Intangible Assets."

#### **Other Assets**

Included in "Other assets" on our consolidated balance sheets are amounts primarily related to acquired intangible assets, net of accumulated amortization; video and music content, net of accumulated amortization; long-term deferred tax assets; certain equity investments; marketable securities restricted for longer than one year, the majority of which are attributable to collateralization of bank guarantees and debt related to our international operations; lease prepayments made prior to lease commencement; and equity warrant assets.

#### **Accrued Expenses and Other**

Included in "Accrued expenses and other" on our consolidated balance sheets are liabilities primarily related to leases and asset retirement obligations, payroll and related expenses, unredeemed gift cards, customer liabilities, current debt, acquired digital media content, and other operating expenses.

As of December 31, 2018 and 2019, our liabilities for payroll related expenses were \$3.4 billion and \$4.3 billion and our liabilities for unredeemed gift cards were \$2.8 billion and \$3.3 billion. We reduce the liability for a gift card when redeemed by a customer. The portion of gift cards that we do not expect to be redeemed is recognized based on customer usage patterns.

#### **Unearned Revenue**

Unearned revenue is recorded when payments are received or due in advance of performing our service obligations and is recognized over the service period. Unearned revenue primarily relates to prepayments of AWS services and Amazon Prime memberships. Our total unearned revenue as of December 31, 2018 was \$7.9 billion, of which \$6.3 billion was recognized as revenue during the year ended December 31, 2019 and our total unearned revenue as of December 31, 2019 was \$10.2 billion. Included in "Other long-term liabilities" on our consolidated balance sheets was \$1.4 billion and \$2.0 billion of unearned revenue as of December 31, 2018 and 2019.

Additionally, we have performance obligations, primarily related to AWS, associated with commitments in customer contracts for future services that have not yet been recognized in our financial statements. For contracts with original terms that exceed one year, those commitments not yet recognized were \$29.8 billion as of December 31, 2019. The weighted average remaining life of our long-term contracts is 3.3 years. However, the amount and timing of revenue recognition is largely driven by customer usage, which can extend beyond the original contractual term.

#### **Other Long-Term Liabilities**

Included in "Other long-term liabilities" on our consolidated balance sheets are liabilities primarily related to deferred tax liabilities, financing obligations, asset retirement obligations, tax contingencies, and digital video and music content.

#### **Foreign Currency**

We have internationally-focused stores for which the net sales generated, as well as most of the related expenses directly incurred from those operations, are denominated in local functional currencies. The functional currency of our subsidiaries that either operate or support these stores is generally the same as the local currency. Assets and liabilities of these subsidiaries are translated into U.S. Dollars at period-end foreign exchange rates, and revenues and expenses are translated at average rates prevailing throughout the period. Translation adjustments are included in "Accumulated other comprehensive income (loss)," a separate component of stockholders' equity, and in the "Foreign currency effect on cash, cash equivalents, and restricted cash," on our consolidated statements of cash flows. Transaction gains and losses including intercompany transactions denominated in a currency other than the functional currency of the entity involved are included in "Other income (expense), net" on our consolidated statements of operations. In connection with the settlement and remeasurement of intercompany balances, we recorded gains (losses) of \$202 million, \$(186) million, and \$95 million in 2017, 2018, and 2019.

#### **Accounting Pronouncements Recently Adopted**

In May 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") amending revenue recognition guidance and requiring more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. We adopted this ASU on January 1, 2018 for all revenue contracts with our customers using the modified retrospective approach and increased retained earnings by approximately \$650 million. The adjustment primarily relates to the unredeemed portion of our gift cards, which are now recognized over the expected customer usage period rather than waiting until gift cards expire or when the likelihood of redemption becomes remote. We changed the recognition and classification of Amazon Prime memberships, which are now accounted for as a single performance obligation and recognized ratably over the membership period as service sales. Previously, Prime memberships were considered to be arrangements with multiple deliverables and were allocated among product sales and service sales. Other changes relate primarily to the presentation of revenue. Certain advertising services are now classified as revenue rather than a reduction in cost of sales, and sales of apps, in-app content, and certain digital media content are presented on a net basis. Prior year amounts have not been adjusted and continue to be reported in accordance with our historic accounting policy.

The impact of applying this ASU for the year ended December 31, 2018 primarily resulted in a decrease in product sales and an increase in service sales driven by the reclassification of Prime membership fees of approximately \$3.8 billion. Service sales also increased by approximately \$3.0 billion for the year ended December 31, 2018 due to the reclassification of certain advertising services.

Figure 3.31 Disclosures in Notes to Accounts

### Analyst Commentary:

- Notes to accounts enlists all the Items from Income Statement, Balance Sheet & additional items like: Accounting Pronouncements recently adopted, Foreign currency & Digital video & Musical content.
- The methods of ascertaining fair value of Goodwill, Assets & other financial statements has been clearly shown & any changes arising while, adapting of new standards have been clearly shown.
- Disclosure of Acquisitions, Goodwill & Acquired Intangible assets adds more authenticity to the information given.

#### Note 5 — ACQUISITIONS, GOODWILL, AND ACQUIRED INTANGIBLE ASSETS

##### 2017 Acquisition Activity

On May 12, 2017, we acquired Souq Group Ltd., an e-commerce company, for approximately \$583 million, net of cash acquired, and on August 28, 2017, we acquired Whole Foods Market, a grocery store chain, for approximately \$13.2 billion, net of cash acquired. Both acquisitions are intended to expand our retail presence. During 2017, we also acquired certain other companies for an aggregate purchase price of \$204 million. The primary reason for our other 2017 acquisitions was to acquire technologies and know-how to enable Amazon to serve customers more effectively.

##### 2018 Acquisition Activity

On April 12, 2018, we acquired Ring Inc. ("Ring") for cash consideration of approximately \$839 million, net of cash acquired, and on September 11, 2018, we acquired PillPack, Inc. ("PillPack") for cash consideration of approximately \$753 million, net of cash acquired, to expand our product and service offerings. During 2018, we also acquired certain other companies for an aggregate purchase price of \$57 million. The primary reason for our other 2018 acquisitions was to acquire technologies and know-how to enable Amazon to serve customers more effectively.

##### 2019 Acquisition Activity

During 2019, we acquired certain companies for an aggregate purchase price of \$315 million. The primary reason for these acquisitions, none of which were individually material to our consolidated financial statements, was to acquire technologies and know-how to enable Amazon to serve customers more effectively.

Acquisition-related costs were expensed as incurred and were not significant.

Pro forma results of operations have not been presented because the effects of 2019 acquisitions, individually and in the aggregate, were not material to our consolidated results of operations.

Figure 3.32 Disclosures of Acquisition Activity by Amazon

- Disclosure of Commitments, owed by company is very important aspect, successfully disclosed by amazon.

#### Commitments

We have entered into non-cancellable operating and finance leases and financing obligations for equipment and office, fulfillment, sortation, delivery, data center, physical store, and renewable energy facilities.

The following summarizes our principal contractual commitments, excluding open orders for purchases that support normal operations and are generally cancellable, as of December 31, 2019 (in millions):

|   | Year Ended December 31, |                  |                  |                  |                  |                  | Total             |
|---|-------------------------|------------------|------------------|------------------|------------------|------------------|-------------------|
|   | 2020                    | 2021             | 2022             | 2023             | 2024             | Thereafter       |                   |
| Debt principal and interest                   | \$ 2,202                | \$ 2,009         | \$ 2,603         | \$ 2,273         | \$ 4,084         | \$ 26,019        | \$ 39,190         |
| Operating lease liabilities                   | 3,757                   | 3,630            | 3,226            | 2,900            | 2,605            | 15,845           | 31,963            |
| Finance lease liabilities, including interest | 9,878                   | 7,655            | 4,060            | 1,332            | 989              | 4,961            | 28,875            |
| Financing obligations, including interest     | 142                     | 146              | 148              | 150              | 152              | 2,452            | 3,190             |
| Unconditional purchase obligations (1)        | 4,593                   | 3,641            | 3,293            | 3,103            | 3,000            | 2,358            | 19,988            |
| Other commitments (2)(3)                      | 3,837                   | 2,274            | 1,770            | 1,439            | 1,389            | 12,186           | 22,895            |
| <b>Total commitments</b>                      | <b>\$ 24,409</b>        | <b>\$ 19,355</b> | <b>\$ 15,100</b> | <b>\$ 11,197</b> | <b>\$ 12,219</b> | <b>\$ 63,821</b> | <b>\$ 146,101</b> |

(1) Includes unconditional purchase obligations related to certain products offered in our Whole Foods Market stores and long-term agreements to acquire and license digital media content that are not reflected on the consolidated balance sheets. For those digital media content agreements with variable terms, we do not estimate the total obligation beyond any minimum quantities and/or pricing as of the reporting date. Purchase obligations associated with renewal provisions solely at the option of the content provider are included to the extent such commitments are fixed or a minimum amount is specified.

(2) Includes the estimated timing and amounts of payments for rent and tenant improvements associated with build-to-suit lease arrangements and lease arrangements prior to the lease commencement date and digital media content liabilities associated with long-term digital media content assets with initial terms greater than one year.

(3) Excludes approximately \$3.9 billion of accrued tax contingencies for which we cannot make a reasonably reliable estimate of the amount and period of payment, if any.

Figure 3.33 Disclosures of Commitments by Amazon

## RESULTS

**Verdict on Quantitative Aspects:**

The Analyst recommends a **“BUY” Rating** on the stock after ‘Forecasting the company’s financial performance’ for the Next 10 years.

The Analyst estimates: the **‘Stocks Intrinsic value’ to be \$2,879.**



Figure 4.1 Dashboard Depicting Recommendation & Target Price

\*All the Snapshots in Quantitative Analysis section have been taken from the Elaborated Financial Valuation Model constructed/developed by the analyst from Scratch\*

## **Verdict on Qualitative Aspects:**

The following factors were considered while preparing Qualitative Analysis of Amazon:

- Companies Transparency regarding factors like: Risk Disclosure.
- Transparency in disclosure of Ownership, Executives Compensation & Corporate Governance.
- Disclosure of Operational Segments Performance.
- Disclosure in Management Discussion & Analysis.
- Transparency in Disclosure of Related Party Transactions.
- Disclosures in Notes to Consolidated Financial Statements.

Amazon has shown good financial performance as well as transparency in its Financial Reports due to, a strong & motivated Management & An experienced base of Board of Directors.

- Company has got good transparency in Disclosing its Risk Factors Disclosure.
- The Disclosures in Ownership patterns, Executives Compensation & Corporate Governance is well defined & transparent.
- Operational Segments Performance has been improving constantly due to focus from top management.
- Company has disclosed every detail in Management discussion & Analysis and forecasts for next reasonable taking into account the past growth.
- No controversy surrounds the company regarding Related Party Transactions due to transparency in disclosure.
- Notes to Consolidated financial statements accounts for every item in financial statements as well as additional statements.

### Verdict:

- ✚ The Management of Amazon.com is efficient & transparent in its undertakings.
- ✚ The Management Seems Stable to run a company like Amazon.



## **Chapter-5**

### **FINDINGS & RECOMMENDATIONS**

After a Careful Study of Quantitative Analysis of Amazon's Financial Health of last 5 years & Predicting for Next 10 years.

Our Findings & Recommendations are:

- Amazon has a very strong financial health with an organic growth Attributable to its various businesses which are performing extraordinarily well.
- The debt is in control.
- The Growth of Cash & Cash Equivalents has been extraordinary.
- Our Predictions for the strong are optimistic based on its past performance.
- We Issue a "BUY" Rating to the Stock & expect an upside of more than 50%+, which means huge upside for the investor.

After a Careful Study of Qualitative Analysis of Amazon's Managerial Health of last 2 years.

Our Findings & Recommendations are:

- The company's management undertaking has been transparent.
- Management has disclosed all necessary information, which is necessary to the shareholders of the company.
- The Management has integrity in their undertaking.
- The Management & Board of Directors seems to be Stable to run a company like Amazon.
- The Qualitative Analysis strengthens the results from Quantitative Analysis and, Amazon's Stock becomes a Strong Buy.

## Chapter-6

### LIMITATIONS OF THE STUDY

There were 2 particular Valuation Methods/Metrics used to carry out valuation for Amazon Inc.:

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1. Discounted Cash Flow Model
2. Comparable Valuation/Sum of the Parts Valuation Model

Out of which, only one Valuation Method i.e. Discounted Cash Flow Model is considered relevant industrywide by experts & Researchers

The only limitation of the study is:

- ❖ Only one Valuation Metric is adopted completely by experts which may at times may prove to be a problem because of too much dependence on one Method/Model can prove to be a problem in case of some companies such as: 'Financial Services Companies'.

Hence, Different Models can be applied.

## Chapter-7

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## Chapter-8

### ANNEXURE

#### **Annexure-1**

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**Chapter-9**

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