EQUITY RESEARCH • TECHNOLOGY / INTERNET & CLOUD INFRASTRUCTURE

Amazon.com, Inc.

NASDAQ: AMZN | Initiation | July 31, 2026

RATING	12-MO PRICE TARGET	CURRENT PRICE	IMPLIED RETURN
HOLD	$238	$235.50	+1.1%

MARKET CAP

$2.44T

Does AWS growth justify Amazon's $200 billion capital-spending plan — or is the market underestimating the cash-flow risk? That is the question the post-earnings rally has answered with an emphatic "yes." Our work suggests a more measured verdict: Amazon is an exceptional franchise whose base-case intrinsic value now sits roughly in line with its share price. The AI optionality that powered the rally is real, but it is also largely priced in. We initiate at **HOLD**, and would accumulate on weakness toward $185–200.

1 Executive Summary & Rating

Amazon closed FY2025 with $716.9 billion of revenue (+12% YoY) and $80.0 billion of operating income (+17% YoY), a genuinely strong result. The headline, however, was AWS: cloud revenue reached $128.7 billion for the year and **accelerated to 24% growth in Q4**, the fastest pace in thirteen quarters, carrying a $244 billion backlog (+40% YoY). Management paired that momentum with a striking commitment: **approximately $200 billion of capital expenditure in FY2026**, predominantly for AWS and AI infrastructure.

The market rewarded the print — shares jumped double digits — on the interpretation that AI demand will fill the capacity Amazon is building. We think that interpretation is *plausible but unproven*. The single most important fact in this report is that **free cash flow collapsed 71% to $11.2 billion in FY2025** as capex ($128 billion) overwhelmed operating cash flow growth. Whether that is a temporary investment trough or a structural step-up in capital intensity is the entire debate.

> **OUR CONCLUSION**
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> Our sum-of-the-parts (SOTP) base case values Amazon at ~$200/share, modestly *below* the current price; our probability-weighted fair value is ~$238, essentially in line. The bull case ($392) requires AWS to compound at ~22% with ~40% margins and earlier capex normalization. The bear case ($168) reflects persistently elevated capex and a rising depreciation drag. With risk skewed symmetrically around today's price, we see no compelling margin of safety and rate shares **HOLD**.

FY2025 REVENUE	OPERATING INCOME	AWS REVENUE	AWS OP. MARGIN

$716.9B
+12% YoY

$80.0B
11.2% margin

$128.7B
+20% FY / +24% Q4

35.4%
57% of segment OI

FREE CASH FLOW
$11.2B
−71% YoY

FY2026E CAPEX
~$200B
guided

2 Business Model by Segment

A consolidated price-to-earnings multiple cannot capture Amazon's changing economics, because the company is really four businesses with radically different margins, growth rates and capital needs. Our valuation therefore separates them.

Segment	FY25 Revenue	FY25 Op. Income	Op. Margin	Rev Growth
North America Retail	$426.3B	$29.6B	6.9%	+10%
International Retail	$161.9B	$4.7B	2.9%	+13%
AWS	$128.7B	$45.6B	35.4%	+20%
Consolidated	**$716.9B**	**$80.0B**	**11.2%**	**+12%**

The economic reality is stark: **AWS is 18% of revenue but 57% of segment operating income.** The retail businesses generate enormous scale and an advertising engine (ads reached ~$21 billion in Q4, growing ~22%), but their profitability is thin and cyclical. Any valuation that matters is, first and foremost, a valuation of AWS.

3 AWS Growth & Competitive Position

AWS re-accelerated through 2025, exiting the year at 24% growth — a reversal of the 2023–24 deceleration narrative that had weighed on the stock. Management attributes this to AI demand and to more than 3.8 gigawatts of capacity added in twelve months. The $244 billion backlog, up 40% YoY, provides real forward visibility that the growth is contracted rather than speculative.

Competitively, AWS remains the largest cloud infrastructure provider, though Microsoft Azure (~40% growth) and Google Cloud (~34%) are growing faster off smaller bases. The strategically important development is Amazon's **custom silicon**: Trainium and Inferentia let AWS undercut Nvidia-based competitors on price-performance for large AI workloads, and the flagship Project Rainier data center — built to run Anthropic's Claude models — is an early proof point. The chip business reportedly grew 150% quarter-over-quarter.

> **WHAT WE'RE WATCHING**
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> AWS margin held at ~35% despite heavy investment, but the real test comes as depreciation from the 2025–26 capex wave hits the P&L. Sustained 35%+ margins *through* that depreciation ramp would be strong evidence the capital is earning its keep.

4 AI Infrastructure Strategy & the Capex Question

This is the crux. Amazon is spending like a company that believes AI compute demand is effectively unbounded for the next several years. The bull case is straightforward: contracted backlog + custom chips + capacity scarcity = high-return investment that will look prescient in hindsight. The bear case is equally coherent: capex has structurally stepped up, depreciation will suppress operating income for years, and if AI demand normalizes before the capacity is absorbed, returns on that $200 billion fall below Amazon's ~9% cost of capital.

($B)	FY25A	26E	27E	28E	29E	30E
Capex	128	200	205	195	175	165
D&A	52	70	88	105	118	128
Capex % of Rev	17.9%	~25%	~23%	~20%	~17%	~14%

Our base case assumes capex peaks near $205 billion in 2027 and then normalizes as utilization rises — but note the depreciation line: D&A more than doubles from $52 billion to $128 billion over the horizon. **Even after cash capex moderates, the accounting drag on operating profit persists.** This is why reported margins and free cash flow tell different stories, and why we discount the near-term rally's confidence.

5 Retail Margin & Logistics Economics

The under-appreciated bull driver is North American retail margin, which we model expanding from 6.9% toward 9.5% by 2030. Three forces support this: (1) advertising — a high-margin revenue stream growing 20%+ that flows disproportionately to the bottom line; (2) logistics productivity as regionalization and automation mature; and (3) operating leverage on a ~$600 billion retail top line. International retail, structurally three to four years behind, offers a similar but later margin story (2.9% → ~5.5%).

The risks are wage inflation and transportation costs, both of which have historically compressed retail margins when they spike. We treat the margin-expansion thesis as probable but not guaranteed, and it is a meaningful swing factor in our scenarios.

6 Advertising & the Prime Ecosystem

Advertising is quietly one of Amazon's most valuable businesses — a ~$85 billion annual run-rate, high-margin, and structurally advantaged by first-party purchase data and Prime Video inventory. We do not value it as a standalone segment (Amazon reports it within retail), but its margin contribution is embedded in our rising North American retail margin assumption. Prime remains the flywheel's hub, driving retail frequency, ad impressions, and subscription revenue in a self-reinforcing loop that competitors have struggled to replicate.

7 Historical Revenue & Operating-Income Analysis

Amazon's operating income inflected dramatically in 2024–25, roughly doubling from the 2022 trough as the post-pandemic cost structure was rationalized and AWS re-accelerated. Operating margin expanded from ~6.4% (2024 entry) to 11.2% (2025). The question for the forecast period is whether this reflects a durable structural improvement or a

cyclical peak that rising depreciation will erode. We assume durability in the retail cost structure but explicitly model the depreciation headwind to AWS and consolidated margins.

8 Capital Expenditure & Depreciation

Covered in Section 4 and detailed in the model's *Capex_FCF* tab. The essential insight bears repeating: the gap between the bull and bear cases is largely a disagreement about a single line — how quickly capex normalizes after 2027, and whether the resulting depreciation is matched by incremental AWS operating income above the cost of capital.

9 Free-Cash-Flow Normalization Scenarios

FY2025 free cash flow of $11.2 billion is not a sustainable equilibrium — it is either a trough (bull) or a new normal (bear). Our base case restores FCF conversion gradually as capex intensity falls from ~25% of revenue toward ~14% by 2030. If that normalization fails to materialize, the equity does not support its current multiple; if it materializes faster than we model, there is genuine upside to the bull case.

10 Sum-of-the-Parts Valuation

We value each segment on its FY2030E exit operating income at a segment-appropriate multiple, discount to present at differentiated cost-of-capital rates (AWS 9.0%, retail 8.5%), and bridge to equity value. We apply an explicit **$150 billion capex-overhang haircut** to reflect the portion of 2026–27 investment not yet earning a return.

Segment	FY30E Op. Income	Exit EV/EBIT	PV of EV	% of EV
North America Retail	~$54B	18.0x	~$640B	~28%
International Retail	~$13B	14.0x	~$120B	~5%
AWS	~$85B	22.0x	~$1,230B	~64%
Total Enterprise Value			**~$2,280B**	**100%**

After adding ~$25 billion net cash and subtracting the $150 billion overhang, equity value divides across 10.76 billion shares to **~$200/share (base SOTP)**. A consolidated DCF cross-check yields a lower ~$134 — the difference reflects how punishing the terminal-FCF method is when near-term FCF is depressed, and it argues for caution rather than the exit-multiple method's more generous read. AWS is ~64% of enterprise value, confirming that this is fundamentally an AWS valuation.

11 Bull, Base & Bear Cases

Driver	Bear	Base	Bull
AWS Revenue CAGR (26–30)	11%	17%	22%
AWS Op. Margin (terminal)	30%	36%	40%
NA Retail Margin (2030E)	7.5%	9.5%	11%
2026–27 Capex (avg)	$220B	$203B	$185B
AWS Exit EV/EBIT	17x	22x	27x
Consolidated WACC	9.5%	8.7%	8.0%
Fair Value / Share	**$168**	**$200**	**$392**
vs. Current ($235.50)	−29%	−15%	+66%

Probability-weighted (30% bear / 45% base / 25% bull), fair value is **~$238** — within 2% of the current price. This symmetry is precisely why we rate the stock HOLD rather than Buy or Sell: the risk/reward is balanced, and the entry price offers no margin of safety.

12 Catalysts & Risks

Positive catalysts

- AWS backlog conversion and continued 20%+ growth prints
- Accelerating adoption of Trainium/Inferentia custom chips (price-performance moat)
- Bedrock and enterprise AI consumption ramping into durable revenue
- North American retail operating-margin expansion beyond 9%
- Advertising revenue sustaining 20%+ growth
- Early evidence that capex growth is moderating — the key de-risking event

Principal risks

- AI demand fails to justify infrastructure commitments; capacity sits underutilized
- Capex remains elevated beyond 2027, structurally raising capital intensity
- Rising depreciation erodes operating profit even as cash capex moderates
- AWS growth decelerates after the current capacity expansion
- Retail wage and transportation cost inflation
- Regulatory / antitrust action (the FY2025 FTC settlement is a reminder)
- Multiple compression as the market re-rates capital-intensive earnings

13 What Would Change the Investment Conclusion

We would move to **Buy** on: (1) two or more consecutive quarters of AWS growth holding above 20% *with* stable or rising margins through the depreciation ramp; (2) explicit capex guidance showing 2027 as the peak; or (3) a share-price pullback toward $185–200, restoring a margin of safety to the base case. We would move to **Sell** on: evidence of AWS deceleration below mid-teens, capex guidance rising further without backlog support, or retail-margin reversal signaling that the cost-structure improvement was cyclical.

> **RESEARCH VERDICT**
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> Amazon deserves further study, but the post-earnings rally should not be read as proof that its capital program will succeed. The central question — whether today's spending produces durable incremental returns above the cost of capital — remains genuinely open. Our numbers say the market has already priced in a favorable answer. We respect the franchise, we doubt the entry price, and we wait. **HOLD; accumulate on weakness.**

Disclosures & disclaimer. This report is prepared for educational and illustrative purposes only and does not constitute investment advice, a recommendation, or an offer or solicitation to buy or sell any security. Figures are derived from Amazon's FY2025 Form 10-K, Q3/Q4 2025 earnings releases and conference-call transcripts (SEC EDGAR), and company guidance, together with the author's own estimates and assumptions. All forward-looking projections are inherently uncertain and may differ materially from actual results. Valuation outputs depend heavily on the input assumptions detailed in the accompanying financial model; small changes in AWS growth, margins, capex normalization, or discount rates produce large changes in fair value. The author is not a registered investment adviser. Past performance does not indicate future results. Readers should conduct their own due diligence and consult a qualified financial professional before making any investment decision. Valuation date: July 31, 2026.