

## Amazon.com, Inc. (AMZN)

Industry View:	In-Line
Stock Rating:	Buy
Price Target:	\$217.8
Current Price:	\$165.8
Shares Outstanding:	10,495.57 MM
Average Daily Volume (3 months):	43.20 MM
52-Week High:	\$201.20
52-Week Low:	\$118.35

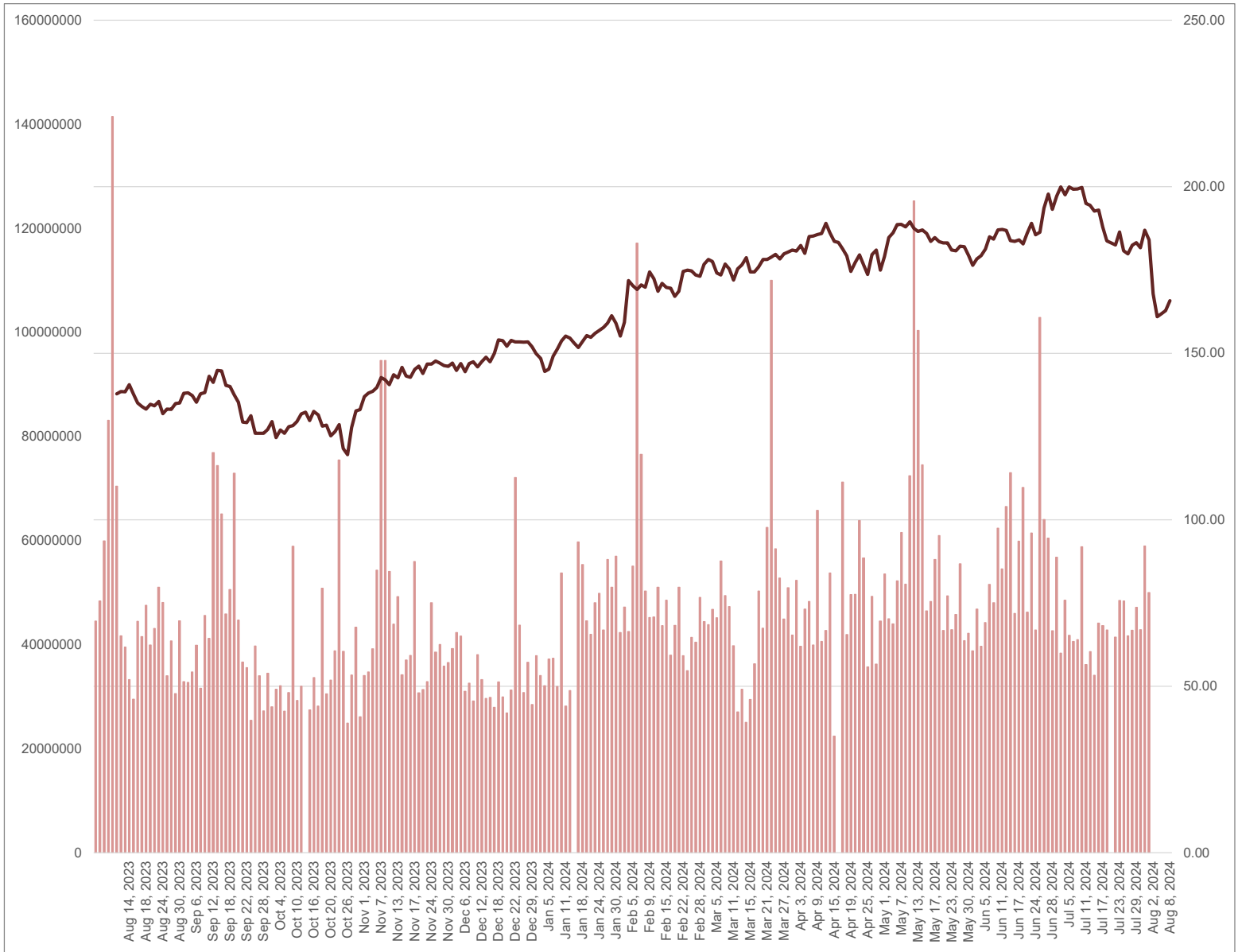
### Objective Of The Report

Baptista Research looks to evaluate the different factors that could influence the company's price in the near future and attempts to carry out an independent valuation of the company using a Discounted Cash Flow (DCF) methodology. In this report, we have carried out a fundamental analysis of the historical financial statements of the company. We also have a dedicated analysis of the company's Environmental, Social, and Governance (ESG) risk scores in order to evaluate the sustainability risk. We have added reasonable forecasts of the annualized income statement and cash flows and carried out a DCF valuation of the company using its Weighted Average Cost of Capital (WACC) to determine a forecasted share price. We have further incorporated a sensitivity analysis/ scenario analysis to understand how changes in key assumptions could impact the valuation under 3 scenarios - a base case, a bull case, and a bear case. These additional layers of analysis serve to provide a comprehensive and robust valuation, giving investors a nuanced understanding of the inherent risks and opportunities.

### Company Overview

Amazon.com, Inc. engages in the retail sale of consumer products and subscriptions in North America and internationally. The company operates through three segments: North America, International, and Amazon Web Services (AWS). It sells merchandise and content purchased for resale from third-party sellers through physical and online stores. The company also manufactures and sells electronic devices, including Kindle, Fire tablets, Fire TVs, Rings, and Echo and other devices; provides Kindle Direct Publishing, an online service that allows independent authors and publishers to make their books available in the Kindle Store; and develops and produces media content. In addition, it offers programs that enable sellers to sell their products on its websites, as well as its stores; and programs that allow authors, musicians, filmmakers, skill and app developers, and others to publish and sell content. Further, the company provides compute, storage, database, analytics, machine learning, and other services, as well as fulfillment, advertising, publishing, and digital content subscriptions. Additionally, it offers Amazon Prime, a membership program, which provides free shipping of various items; access to streaming of movies and TV episodes; and other services. The company serves consumers, sellers, developers, enterprises, and content creators. Amazon.com, Inc. was founded in 1994 and is headquartered in Seattle, Washington.

## Stock Price Chart - 1 Year



## Investment Thesis & Recent Earnings Summary

The second quarter 2024 financial results for Amazon.com Inc. showcased both growth and challenges as the company continues to navigate a complex global economic environment. Overall, Amazon.com reported an 11% year-over-year increase in revenue, totaling \$148 billion, which excludes the effects of foreign exchange rates. The operating income notably increased by 91% year-over-year to \$14.7 billion, and the free cash flow adjusted for leases surged by 664% to \$51.4 billion. These figures underscore a robust performance in core sectors and effective cost management.

Breaking down the performance by sector, Amazon Web Services (AWS) remained a strong growth driver. There was a notable acceleration in AWS revenue growth, moving from a 17.2% increase in Q1 to 18.8% in Q2. This growth was fueled by companies shifting focus back to scaling up and modernizing their infrastructure. AWS's emphasis on offering a variety of tools rather than a one-size-fits-all model seems to resonate well with the consumer base, which is increasingly integrating AI into their operations. The launch of advanced chips like Trainium for training and Inferentia for inference, intended to improve price performance, reflects AWS's commitment to innovation and customer satisfaction.

In the advertising realm, Amazon.com reported a significant year-over-year increase, generating more than \$50 billion in revenue over the trailing 12 months. Sponsored ads are the main revenue driver in this segment. Efforts to integrate advertising with measurable business outcomes, especially in streaming via Prime Video, indicate a strategic expansion focused on enhancing user engagement and monetization.

The company's retail or 'Stores' business, encompassing North America and international markets, saw varied growth, reporting a 9% increase in North America and 10% internationally. Management highlighted several strategies that might pressure revenue in the short term but are anticipated to enhance customer satisfaction and operational efficiency. Notably, initiatives to improve delivery speeds, low-priced item selection, and inventory management were emphasized as core focus areas.

Despite these positive aspects, the report also delineated several challenges. The fluctuating operating income, partly affected by investments in new projects like Project Kuiper, reflects ongoing pressure on margins. Amazon.com is also navigating global economic uncertainties including inflation, changing consumer behaviors, and potential geopolitical tensions which could impact its international growth.

Furthermore, strategic shifts like the enhancement of the Prime subscription model, which now includes benefits like free restaurant delivery and extended pharmacy services, were designed to strengthen Amazon's competitive edge. However, these enhancements also imply significant upfront investments and might strain short-term profitability.

In terms of investment and future growth, Amazon.com's commitment to capital investments, primarily in AWS and Project Kuiper, indicates a focus on long-term strategic goals. These investments, although substantial, are aimed at ensuring that Amazon remains at the forefront of technological innovation, particularly in AI and cloud computing.

In conclusion, while Amazon.com's second quarter results for 2024 reflected a strong balance of growth across its various sectors, the company also faces ongoing challenges in terms of cost management and competitive pressures. The strategic investments Amazon is making, especially in technology and global infrastructure, while potentially weighing on short-term profitability, are likely to enhance its market position and offer substantial returns in the longer term. The company's ability to adapt to rapid changes in consumer behavior and technological advancements remains a critical aspect of its strategy moving forward. We give Amazon a 'Buy' rating with a revised target price.

## Key Factors Influencing The Stock Price

### Strong Competitive Advantage

Amazon has established itself as a dominant force in various markets, particularly in e-commerce and cloud services. With network effects, cost advantages, intangible assets, and switching costs, the company possesses a robust competitive advantage. Over the past two decades, Amazon has disrupted the traditional retail industry while simultaneously building Amazon Web Services (AWS) into the leading provider of infrastructure-as-a-service (IaaS). Consumers have embraced this change, leading traditional retailers to invest heavily in technology to keep pace. The COVID-19 pandemic has further accelerated this transformation, widening Amazon's lead and ensuring sustained economic returns that surpass its cost of capital. This is due to Amazon's technological expertise, massive scale, and strong customer relationships. The integration of Amazon Prime strengthens its e-commerce business by generating recurring high-margin revenues from loyal customers who make frequent purchases. Network effects also contribute to Amazon's success in retail, as the large customer base attracts third-party sellers, expanding product variety and making Amazon a preferred online destination. Despite the global pandemic, Amazon has rapidly expanded its distribution network, demonstrating its agility in planning, constructing, and scaling facilities to meet evolving demands. Additionally, the company has developed its own semiconductors to power server arrays and proprietary robotic automation technology for efficient order fulfillment in its warehouses. Looking ahead, Amazon aims to penetrate categories like groceries and high-end goods, leveraging its competitive advantages. Overall, the combination of network effects, intangible assets, cost advantages, and switching costs positions Amazon as a formidable competitor across its entire business ecosystem.

### Recent E-Commerce Evolution

In the burgeoning e-commerce landscape, Amazon has firmly retained its supremacy, especially in the wake of the heightened demand for digital shopping due to the COVID-19 pandemic. As the most extensive online retail platform globally, Amazon boasts an array of products, ranging from electronics to groceries, appealing to its 300 million-plus active users who appreciate its unparalleled convenience, assortment, and value. A significant contributor to its attractiveness is the Prime membership, granting users access to swift shipping, exclusive deals, and a medley of streaming services, among others. 2023 proved particularly prosperous for Amazon's e-commerce sector, underpinned by the ongoing pandemic-induced inclination towards online retail. Multiple factors have catalyzed Amazon's e-commerce growth. A noticeable uptick in demand for both essential and luxury items, coupled with seasonal sales events like Prime Day and Black Friday, has significantly bolstered its revenues. Furthermore, venturing into new territories and product categories, including markets like Brazil and Saudi Arabia and sectors like luxury fashion and pharmacy, has expanded its customer base and diversified its offerings. Keeping up with its tradition of innovation, Amazon introduced several new products and services. "Amazon Pharmacy" offers a streamlined process for ordering prescription medications, "Amazon Fresh" presents a fresh grocery shopping model with the breakthrough 'Just Walk Out' technology, "Amazon Go" extends a frictionless shopping experience in its convenience stores, and "Amazon Halo" emerges as a holistic health and wellness solution, merging wearables with actionable health insights.

## Expansion of AWS and AI Integration

Amazon has identified its AWS and AI services as key growth drivers, citing a substantial increase in generative and non-generative AI workloads. The company acknowledged a continued expansion across various customer initiatives, including the migration from on-premises infrastructure to the cloud and the incorporation of AI technologies. AWS has now crossed a revenue run rate of over \$105 billion, driven by both longstanding and novel AI-related demands. This segment of Amazon's business benefits from an intricate balance of cost control, strategic hiring, and investment in advanced technological infrastructure. The segment's growth is cushioned by Amazon's efficient operational adjustments, such as extending the estimated useful life of their servers, which has significantly contributed to improving the AWS operating margin. This transformative focus not only bolsters Amazon's position in cloud infrastructure but also ensures it remains at the forefront of technological advancements like AI, creating a robust foundation for sustained growth.

## Global Market Expansion and Localization Initiatives

Amazon's strategic initiative to expand and localize its operations in international markets has been instrumental in driving profitability. By improving inventory placement and consolidating shipments, Amazon has enhanced its logistics, reducing the overall cost to serve in established countries. This has allowed the company to increasingly leverage its cost structure and expand the array of customer offerings in emerging markets. Ensuring profitability in its international segment, Amazon has reported operating income improvements, especially noting strong performance metrics that outpace many local competitors. This localization not only fosters closer customer relationships by minimizing delivery times but also optimizes operational efficiencies that contribute to the company's bottom line. Continued focus on expanding Prime benefits and adapting to regional market dynamics underscores Amazon's commitment to capturing and sustaining a significant share of the global e-commerce market.

## Diversification and Growth of Advertising Portfolio

The diversification and expansion of Amazon's advertising portfolio have emerged as significant contributors to its profitability. Encouraged by robust growth in advertising within the North American and international segments, Amazon continues to broaden its advertising strategies. This includes enhancing existing advertising products such as Sponsored Products and exploring newer avenues like Prime Video ads. The evolution of Amazon's advertising approach is aligned with its core e-commerce growth, leveraging the vast traffic on its platform to offer high-value advertising solutions to third-party sellers and brands. By effectively integrating advertising with its e-commerce and media streaming segments, Amazon not only enriches the user experience but also taps into an additional, high-margin revenue stream that supports its expansive business model.

## Biggest Challenges/ A Bear's Perspective

### Risk of Regulatory Challenges

Amazon's substantial growth and expansion across various domains, including AWS, AI, advertising, and global markets, pose significant regulatory challenges. As the company broadens its footprint in these areas, it encounters diverse international laws and regulations that could impact operations. Regulatory scrutiny might increase due to Amazon's dominant position in the market, especially in cloud computing and e-commerce. For instance, data protection and privacy laws in Europe and other regions could impose constraints on AWS and its data handling practices. Similarly, expanding advertising services might attract attention regarding consumer privacy and the fairness of advertising practices. As regulatory landscapes evolve, especially concerning technology and data usage, Amazon will need to navigate complex compliance requirements that could affect operational efficiency and costs. This ongoing challenge requires robust legal strategies and could lead to potential disruptions or limitations in service capabilities if not managed effectively.

### Risk of Technological Disruptions and Reliability

Amazon's aggressive push into technology-driven services like AWS and AI, along with ventures into space technology through Project Kuiper, introduces the risk of technological disruptions and reliability issues. High dependency on sophisticated technology for operations raises the stakes in maintaining system integrity and operational uptime. For instance, any significant downtime or disruption in AWS services could result in substantial financial loss and customer trust erosion. Technological disruptions could also stem from cybersecurity threats, which are becoming increasingly sophisticated and could jeopardize sensitive data and critical infrastructure. Additionally, Project Kuiper exposes Amazon to the complex challenges of space technology, including satellite launch failures or orbital debris issues. Ensuring reliability in these advanced technological ventures is critical, requiring substantial investment in security, system redundancies, and disaster recovery measures which, if neglected, could significantly hinder Amazon's growth and reputation.

### Risk of Market Saturation and Competition

As Amazon continues to expand its market presence globally and diversifies into new services like advertising and enhanced Prime offerings, it faces the risk of market saturation and intense competition. In the e-commerce sector, numerous local and international players are continuously improving their service offerings, which could limit Amazon's growth potential in key markets. Similarly, in cloud computing through AWS and the advertising sector, competitors such as Google, Microsoft, and various startups are rapidly innovating, potentially outpacing Amazon's enhancements or pricing models. This situation is compounded in less developed markets where local businesses could present stronger competition due to better alignment with consumer preferences and regulatory environments. Continuous innovation and strategic market positioning will be crucial for Amazon to maintain its competitive edge, which poses a significant ongoing challenge in avoiding market saturation and effectively responding to competitive pressures.

### Risk of Overreliance on Technological Advancements

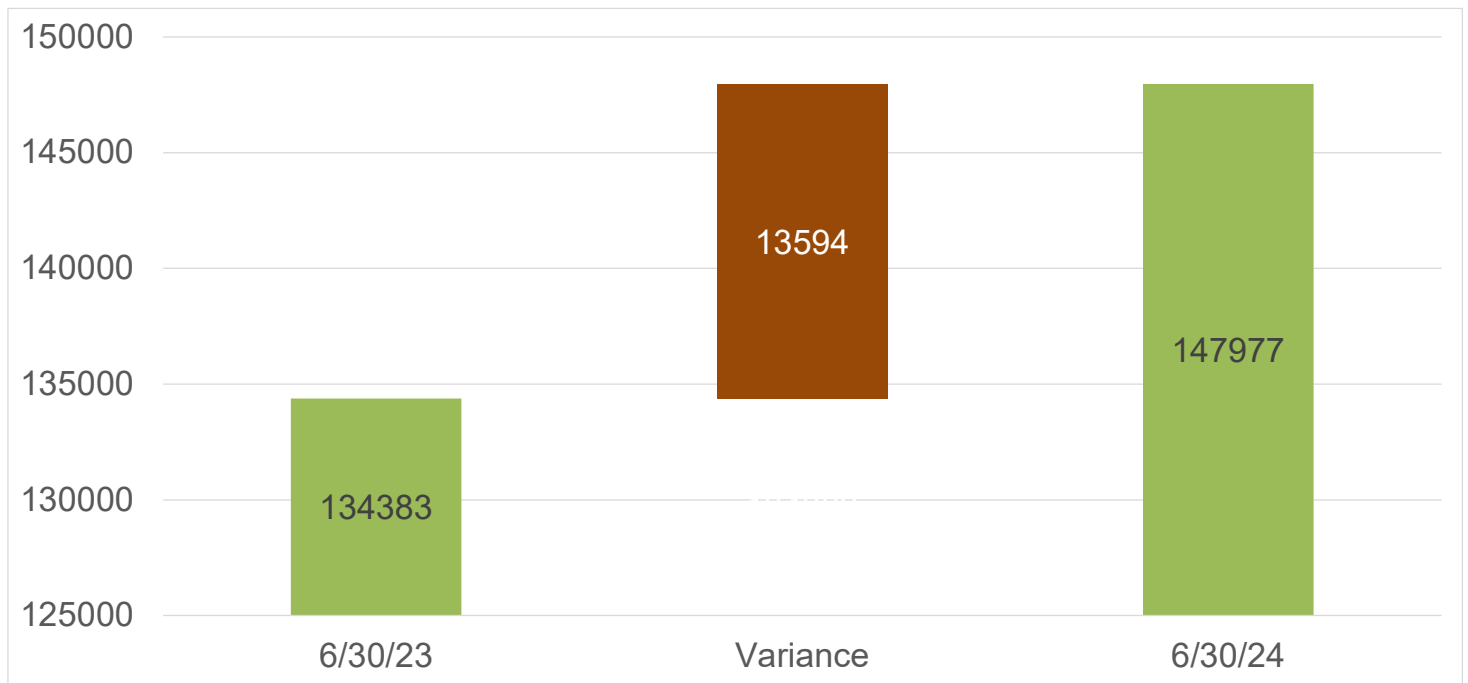
Amazon's vision heavily relies on the continuous integration and advancement of technology, particularly in AI and cloud computing with AWS, as well as its foray into satellite internet services through Project Kuiper. This overreliance poses a risk in scenarios where technological advancements do not proceed as planned or fail to meet commercial or operational expectations. Technological innovations inherently carry the risk of failure or unforeseen complications that could delay or derail Amazon's strategic initiatives. For example, failure in AI algorithms could lead to incorrect data analyses, impacting business decisions, while setbacks in satellite technology could impede the rollout of global broadband services, affecting long-term investment returns. Amazon's sustainability and growth thus hinge significantly on its ability to successfully innovate while managing the inherent risks of technological dependencies, including troubleshooting, timely upgrades, and coping with rapid tech evolutions.

## Comparative Analysis - Quarterly Income Statement (USD Million)

Particulars	6/30/24	6/30/23	Variance	% Variance
<b>Revenues</b>	<b>147977</b>	<b>134383</b>	<b>13594</b>	<b>10.1%</b>
Cost of Goods Sold	-73785	-69373	-4412	6.4%
Gross Income (excl. D&A)	74192	65010	9182	14.1%
<b>EBITDA</b>	<b>26710</b>	<b>19270</b>	<b>7440</b>	<b>38.6%</b>
Depreciation & Amortization	12038	11589	449	3.9%
Extraordinary Expenses	0	0	0	NA
<b>EBIT</b>	<b>14672</b>	<b>7681</b>	<b>6991</b>	<b>91.0%</b>
Pretax Income	15252	7554	7698	101.9%
Income Tax	1767	804	963	119.8%
<b>Net Income</b>	<b>13485</b>	<b>6750</b>	<b>6735</b>	<b>99.8%</b>

- \* Let us start off by doing a side-by-side comparative analysis of the company's most recent quarterly result as against the quarterly result in the corresponding quarter of the previous year.
- \* Amazon reported a top-line of \$147.98 billion for the most recent quarterly result for the period ended 6/30/24 which implies a 10.12% change as compared to the \$134.38 billion number reported in the corresponding quarter of the previous year.

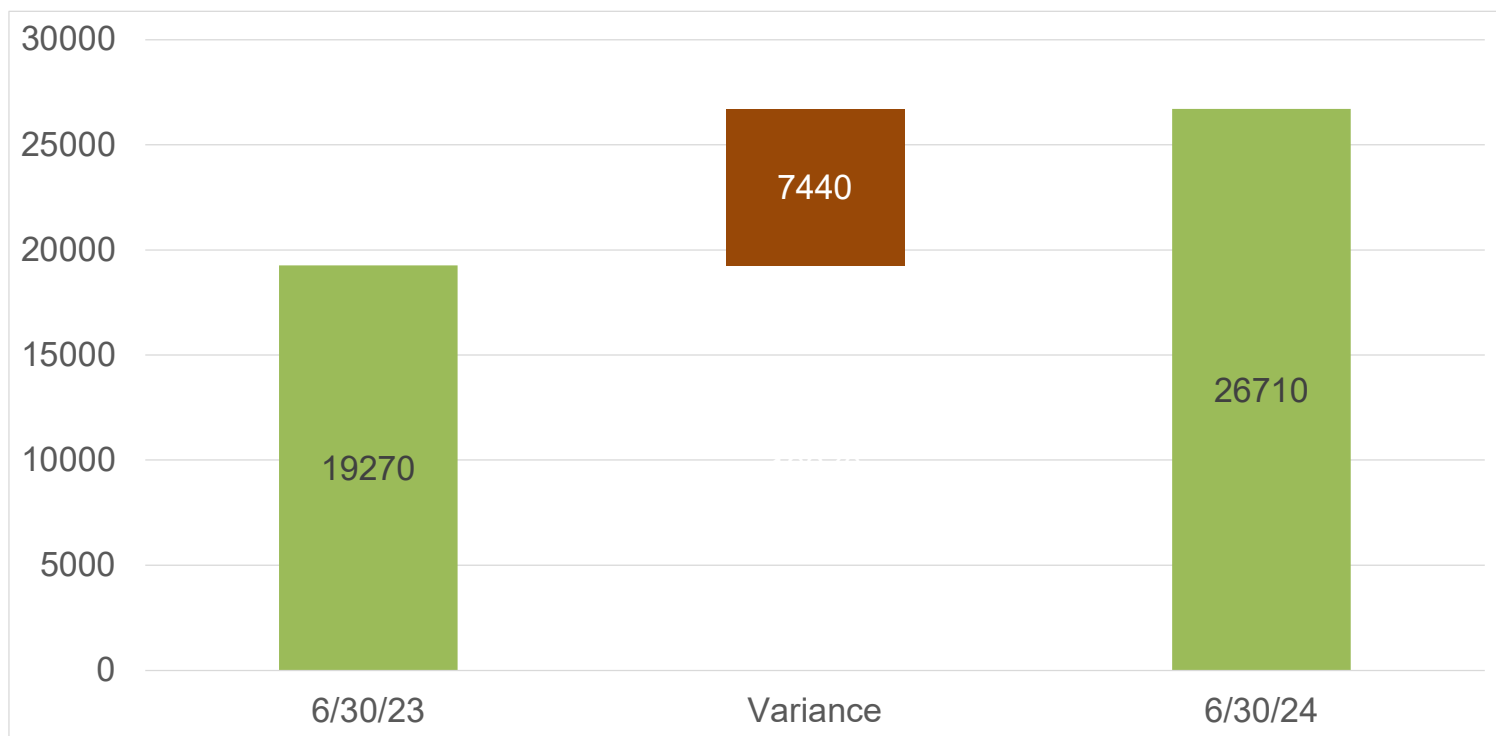
## Total Revenues - Quarter-on-Quarter Variance Bridge (USD Million)



- \* Amazon's gross profit of \$74.192 billion showed an increase of 14.12% as compared to the value reported in the quarter ended 6/30/23.
- \* These revenues translated into a gross margin of 50.10% and an operating margin of 9.90% which was higher than that in the same quarter of last year.
- \* Amazon reported an EBITDA of \$26.71 billion which translated into a Net Income of \$13.49 billion.
- \* We can see a graphical representation of the quarter-on-quarter evolution and variance of EBITDA of the company of the corresponding quarter of the previous year versus the recent quarterly number.

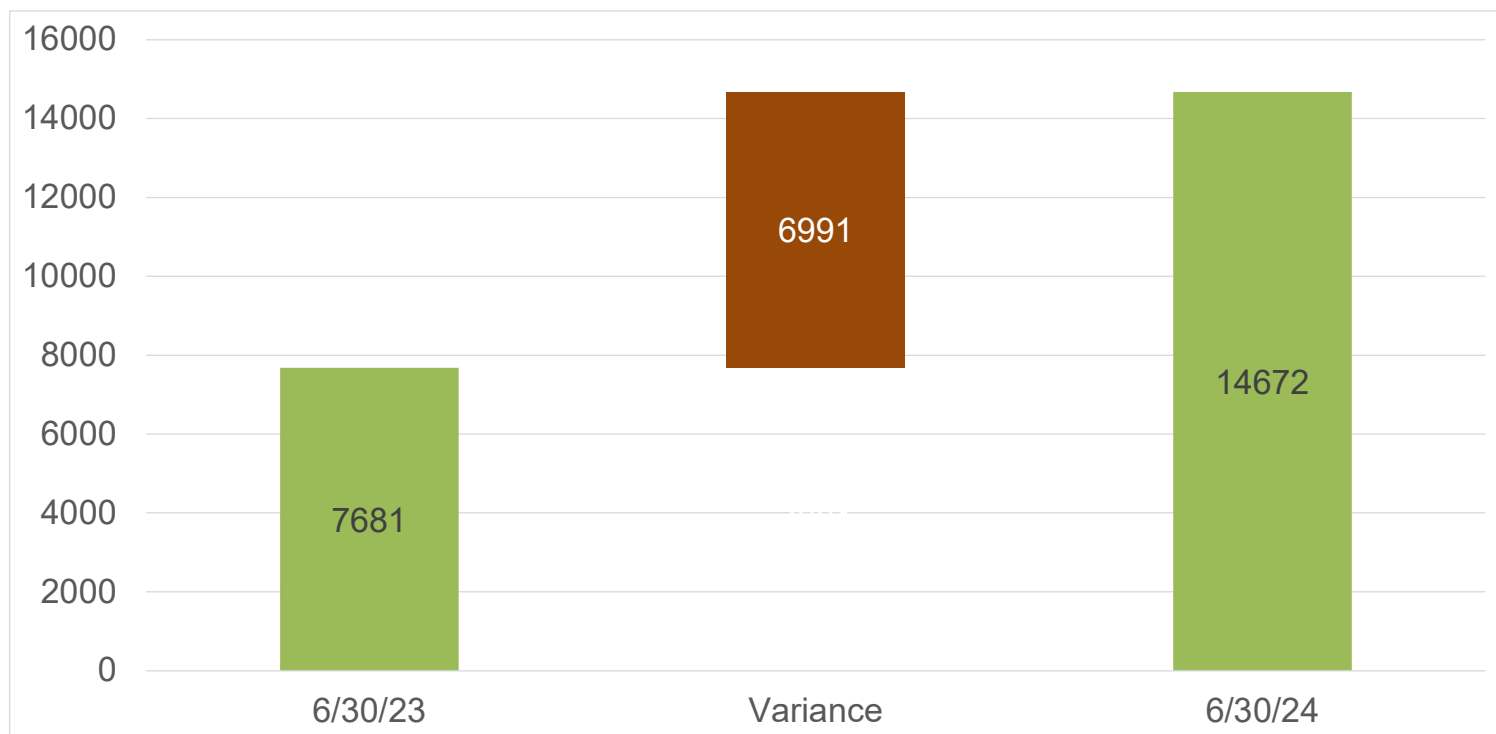


### EBITDA - Quarter-on-Quarter Variance Bridge (USD Million)



\* We can see in the below chart that Amazon's operating income/ EBIT grow from \$7.681 billion to \$14.672 billion, a 91.02% change.

### Operating Income - Quarter-on-Quarter Variance Bridge (USD Million)



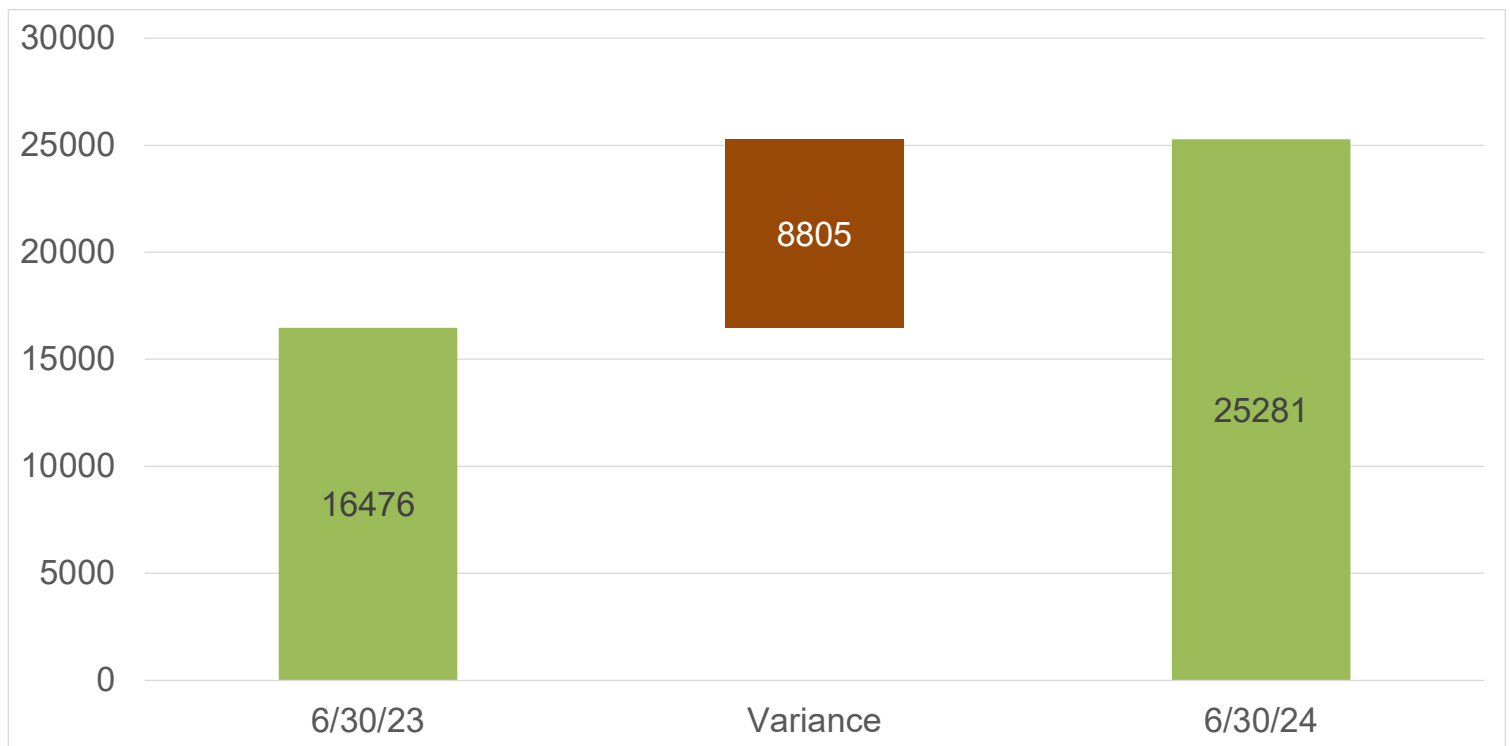
- We see a positive variance of 101.91% in the company's pretax income.

## Comparative Analysis - Quarterly Cash Flow Summary (USD Million)

Particulars	6/30/24	6/30/23	Variance	% Variance
Cash from Operations	25281	16476	8805	53.4%
Cash from Investing	-22138	-9673	-12465	128.9%
Free Cash Flows	3,143	6,803	-3660	-53.8%

- When we do a side-by-side comparative analysis of the company's most recent quarterly cash flows as against the quarterly cash flows in the corresponding quarter of the previous year, we see a 53.44% rise in the operating cash flows.

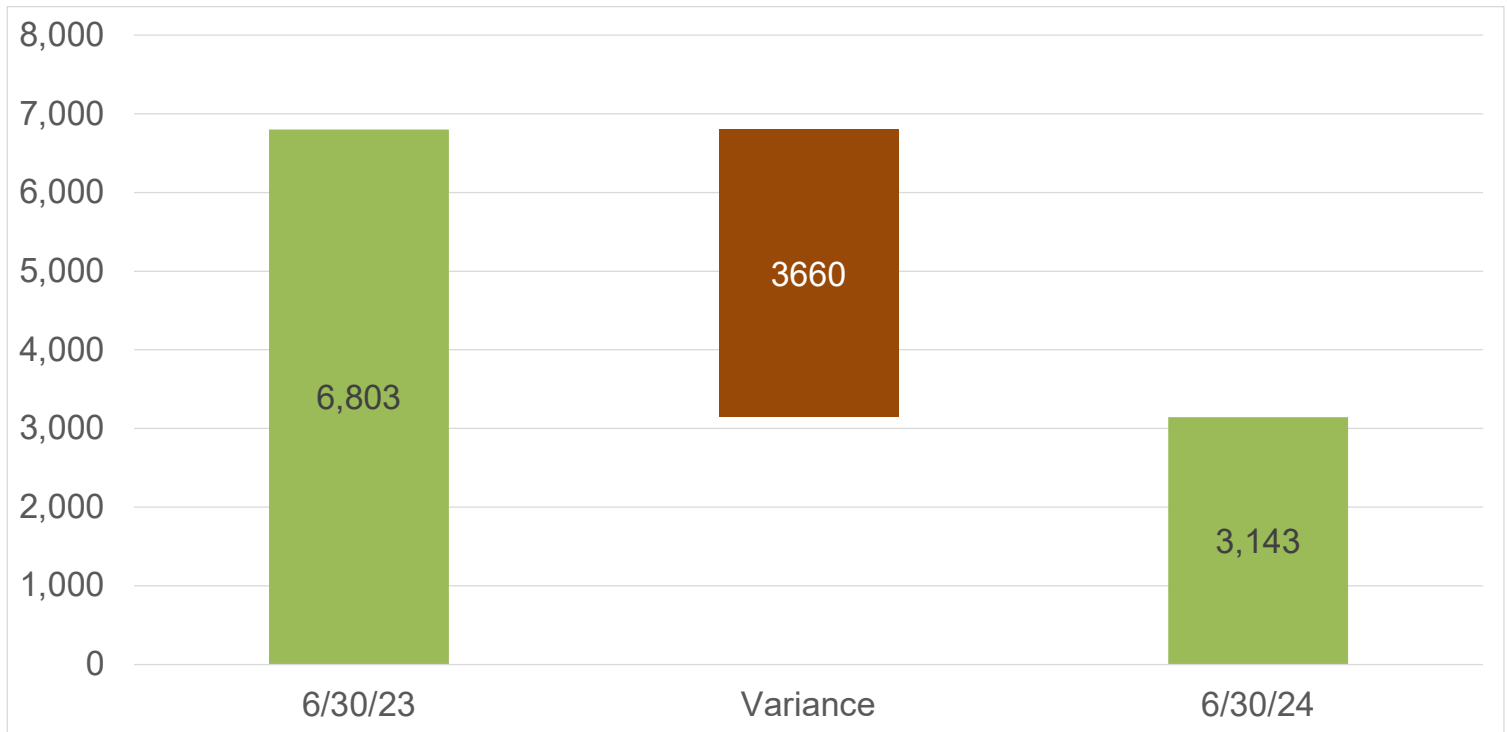
## Operating Cash Flow - Quarter-on-Quarter Variance Bridge (USD Million)



\* As compared to the prior year quarter, this year, Amazon has spent \$12.465 billion less in Investing Activities than the previous quarter.

\* In effect, the company's free cash flows had a variance of -53.80% We can see a graphical representation of the variance in the chart below:

## Free Cash Flow - Quarter-on-Quarter Variance Bridge (USD Million)



## Comparative Analysis - Quarterly Balance Sheet (USD Million)

Balance Sheet	6/30/24	6/30/23	Variance	% Variance
<b>Assets</b>				
Net Intangible Fixed Assets	22879	22785	94	0.4%
Net Tangible Fixed Assets	295292	264116	31176	11.8%
<b>Total Fixed Assets</b>	<b>318171</b>	<b>286901</b>	<b>31270</b>	<b>10.9%</b>
LT Investments	2915	2533	382	15.1%

Inventories	34109	36587	-2478	-6.8%
Accounts Receivable	43715	34925	8790	25.2%
Cash and ST Investments	89092	63970	25122	39.3%
Other Current Assets	6391	5000	1391	27.8%
<b>Total Current Assets</b>	<b>173307</b>	<b>140482</b>	<b>32825</b>	<b>23.4%</b>
Other Assets	60425	47691	12734	26.7%
<b>Total Assets</b>	<b>554818</b>	<b>477607</b>	<b>77211</b>	<b>16.2%</b>

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## Liabilities & Shareholder's Equity

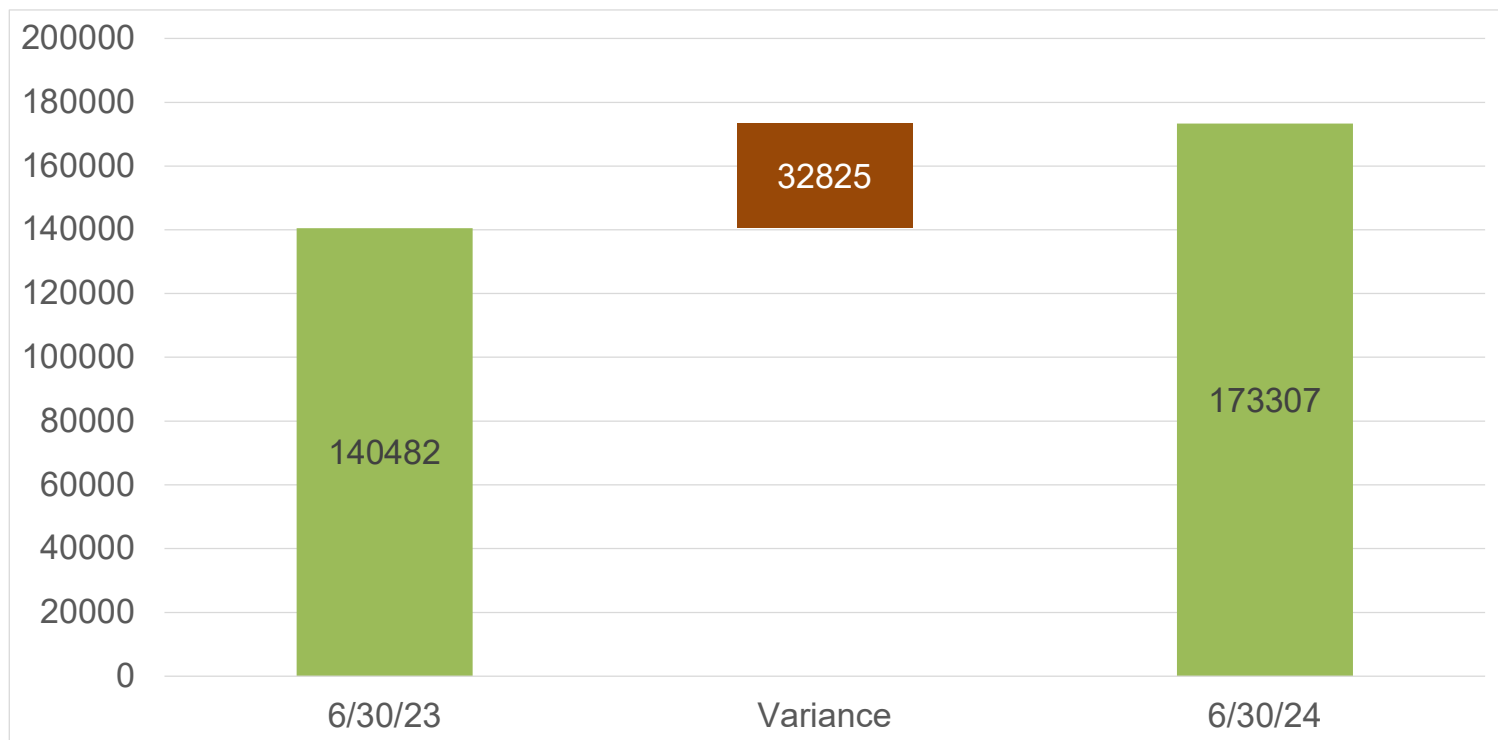
Equity & Minorities	236447	168602	67845	40.2%
LT Debt	61789	69692	-7903	-11.3%
Other LT Liabilities	98410	91075	7335	8.1%
<b>Total LT Liabilities</b>	<b>160199</b>	<b>160767</b>	<b>-568</b>	<b>-0.4%</b>
ST Debt	76	13500	-13424	-99.4%
Accounts Payable	81817	69481	12336	17.8%

Other ST Liabilities	76279	65257	11022	16.9%
<b>Total Current Liabilities</b>	<b>158172</b>	<b>148238</b>	<b>9934</b>	<b>6.7%</b>
<b>Total Liabilities</b>	<b>318371</b>	<b>309005</b>	<b>9366</b>	<b>3.0%</b>
<b>Total Liabilities &amp; Shareholder's Equity</b>	<b>554818</b>	<b>477607</b>	<b>77211</b>	<b>16.2%</b>

\* Now let us move on to a side-by-side comparative analysis of Amazon's most recent quarterly balance sheet versus the quarterly balance in the corresponding quarter of the previous year.

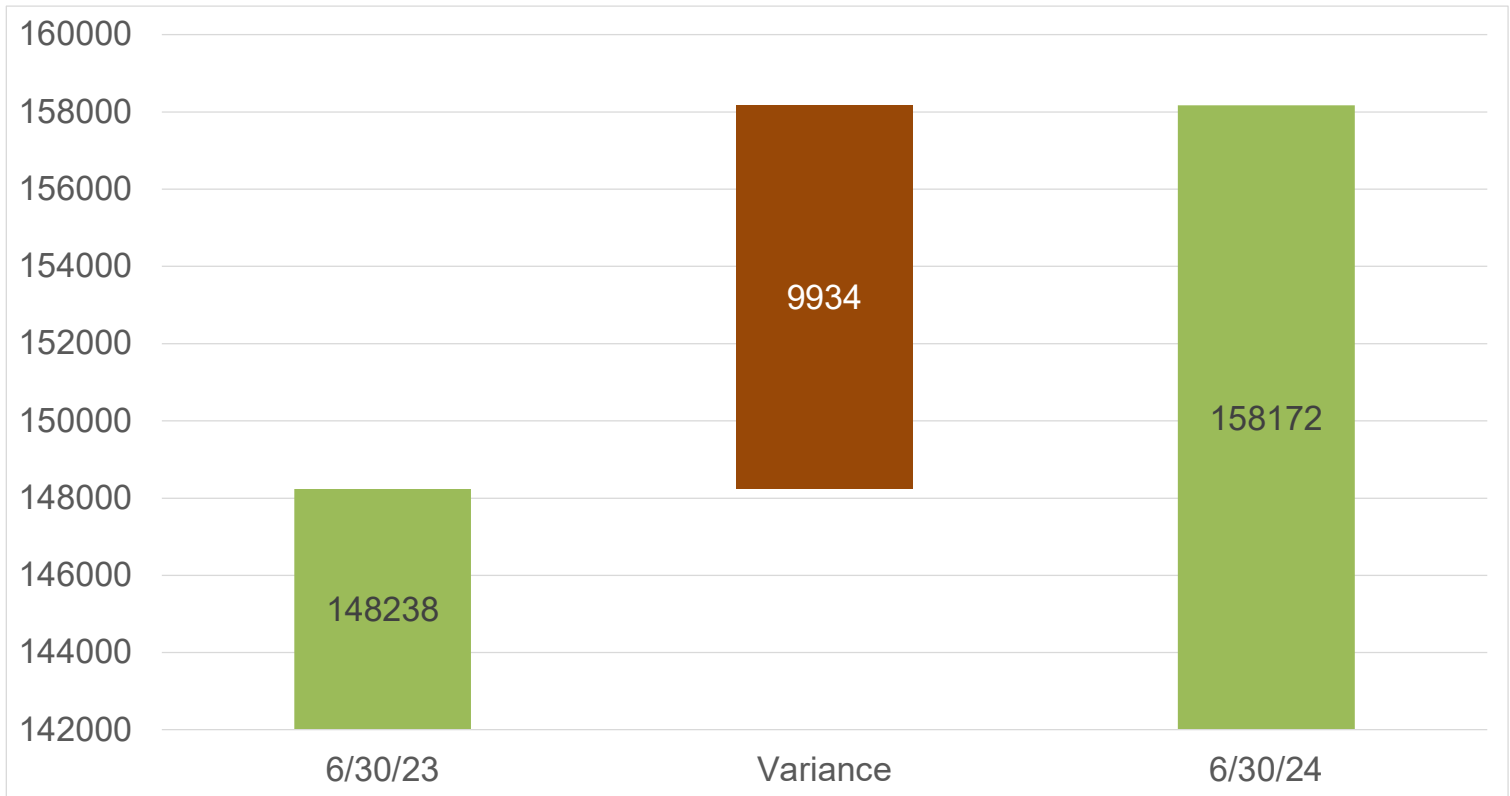
\* We can see a graphical representation of the variance in the level of the capital blocked by the company in Current Assets in the chart below.

## Current Assets - Quarter-on-Quarter Variance Bridge (USD Million)



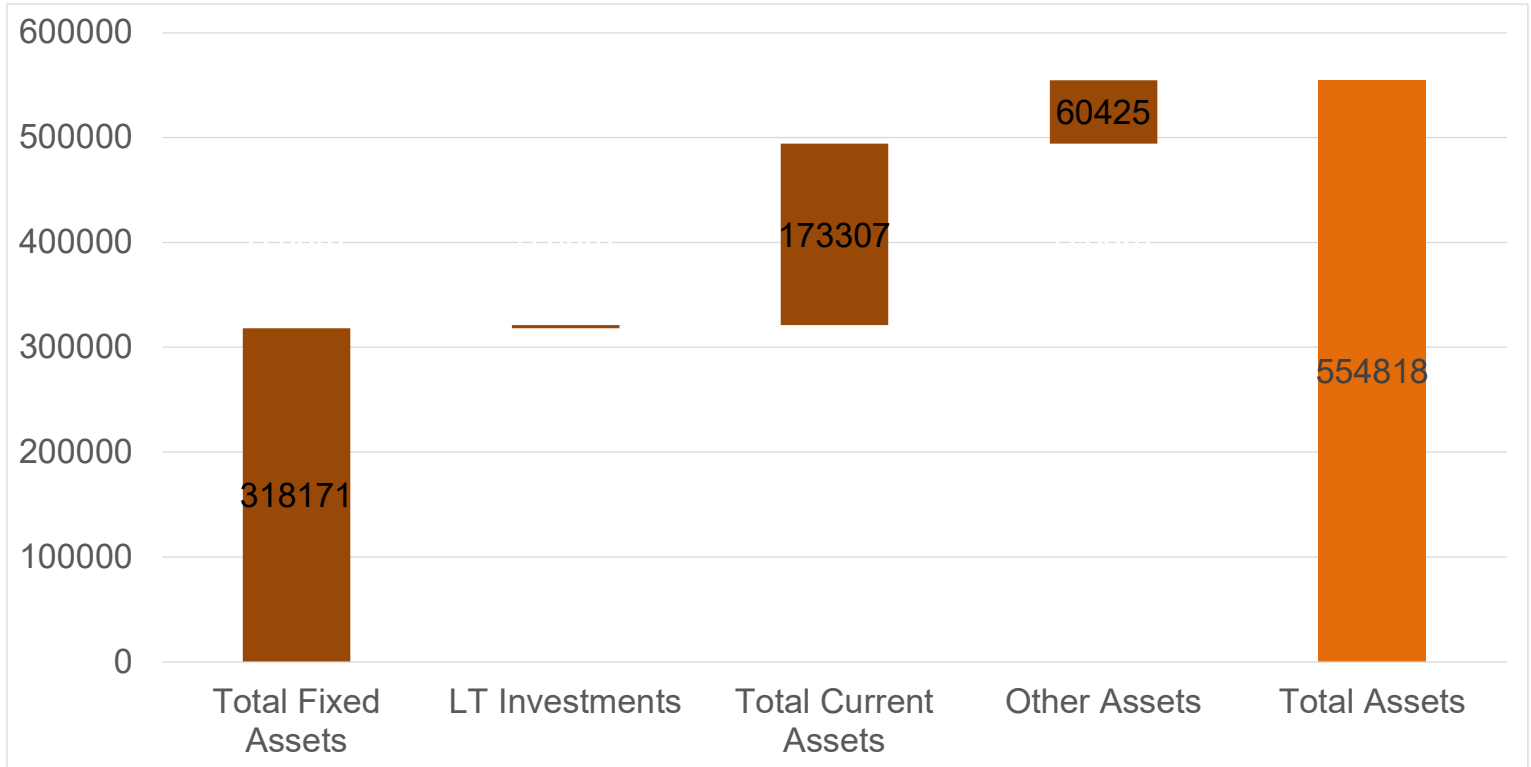
- \* On the liability side, we see that the company's total long term liabilities have decreased by \$568 million as compared to the quarter ending 6/30/23.
- \* On the other hand, Amazon's total current liabilities have increased by 6.70% versus the quarter ending 6/30/23 as shown in the chart below.

## Current Liabilities - Quarter-on-Quarter Variance Bridge (USD Million)



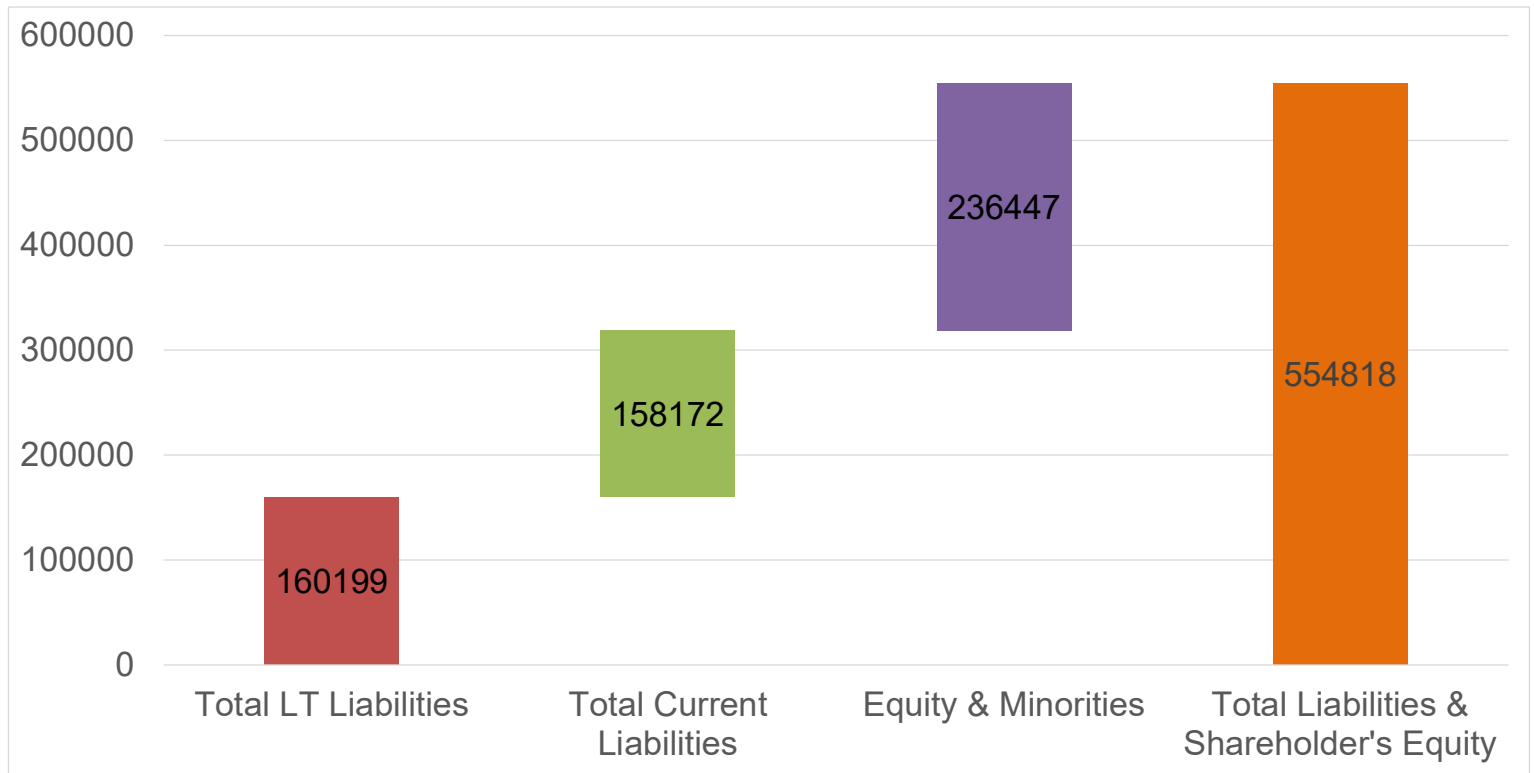
- \* We see that Amazon's total assets have increased by 16.17% as compared to the corresponding quarter of the previous year.
- \* We can see a complete breakdown of the composition of the total assets of the company in a waterfall structure in the chart below.

## Total Assets As On 6/30/24 - Waterfall Analysis (USD Million)



- \* Moving on to the Total Liabilities & Shareholder's Equity, we can also see a complete breakdown of its composition in a waterfall structure in the chart on the following page.

## Shareholders' Equity As On 6/30/24 - Waterfall Analysis (USD Million)



## Sequential Quarter-On-Quarter Analysis - Income Statement (USD Million)

Particulars	9/30/23	12/31/23	3/31/24	6/30/24
Revenues	143083	169961	143313	147977
<i>% growth</i>		18.8%	-15.7%	3.3%
Cost of Goods Sold	-75022	-92553	-72633	-73785
<i>% of revenue</i>	-52.4%	-54.5%	-50.7%	-49.9%
Gross Income (excl. D&A)	68061	77408	70680	74192
<i>% of revenue</i>	47.6%	45.5%	49.3%	50.1%
EBITDA	23319	26609	26991	26710
<i>% of revenue</i>	16.3%	15.7%	18.8%	18.1%
Depreciation & Amortization	12131	13820	11684	12038



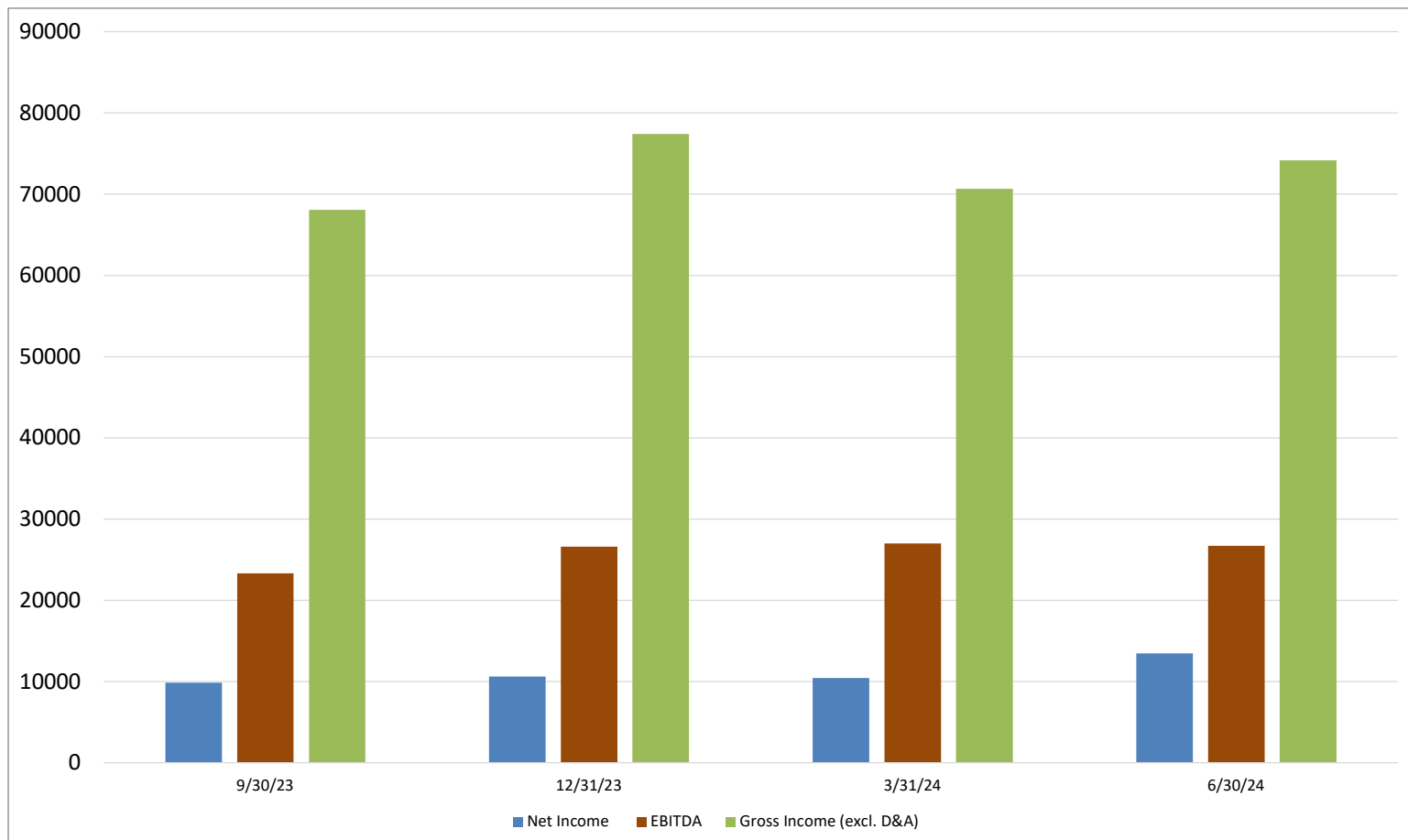
% of Fixed Assets	4.2%	4.5%	3.8%	3.8%
Extraordinary Expenses	0	0	0	0
EBIT	11188	12789	15307	14672
% of revenue	7.8%	7.5%	10.7%	9.9%
Pretax Income	12185	13686	12898	15252
% of revenue	8.5%	8.1%	9.0%	10.3%
Income Tax	2306	3062	2467	1767
% rate	18.9%	22.4%	19.1%	11.6%
Net Income	9879	10624	10431	13485
% of revenue	6.9%	6.3%	7.3%	9.1%

- Now let us move to a sequential, quarter-on-quarter analysis of the company's income statement as see the gradual evolution of revenues and profitability
- Amazon has reported a top-line of \$147.977 billion in its recent quarterly result which is a 3.25% appreciation over the previous quarter.
- The company reported a positive gross margin of 50.14% for the quarter ended 6/30/24.
- Its EBITDA for the quarter was \$26.71 billion and the EBITDA margin was 18.05%.
- This was a -0.78% margin contraction at the EBITDA level which is definitely a negative outcome.
- Amazon's operating income (EBIT) was reported at \$14.672 billion and a margin of 9.92%.
- This EBIT margin dropped by 0.77% in this quarter.
- The company's pre-tax margin for the quarter was 10.31%.
- Amazon reported a net income of \$13.485 billion which resulted in a diluted earnings per share (EPS) of \$1.26.
- The company's net margin was 9.11%

## Sequential Quarter-On-Quarter Analysis - Cash Flow Statement (USD Million)

Particulars	9/30/23	12/31/23	3/31/24	6/30/24
Cash from Operations	21217	42465	18989	25281
<i>% of revenue</i>	<i>14.8%</i>	<i>25.0%</i>	<i>13.3%</i>	<i>17.1%</i>
Cash from Investing	-11753	-12601	-17862	-22138
<i>% of Fixed Assets</i>	<i>-4.1%</i>	<i>-4.1%</i>	<i>-5.8%</i>	<i>-7.0%</i>
Free Cash Flows	9,464	29,864	1,127	3,143
<i>% of revenue</i>	<i>6.6%</i>	<i>17.6%</i>	<i>0.8%</i>	<i>2.1%</i>

## Evolution Of Gross Income, EBIT, & Net Income (USD Million)



- Now let us move on to the cash flow generation in the recent quarter.
- Amazon generated \$25.281 billion in terms of operating cash flows for the quarter ended 6/30/24.
- The company was able to convert about 17.08% of its revenues into operating cash flows in the recent quarter.
- This quarter's EBITDA-to-operating cash flow conversion ratio is 94.65%
- Overall, Amazon delivered a positive free cash flow of \$3.143 billion for the past quarter.

## Sequential Quarter-On-Quarter Analysis - Balance Sheet (USD Million)

Balance Sheet	9/30/23	12/31/23	3/31/24	6/30/24
<b>Assets</b>				
Net Intangible Fixed Assets	22749	30476	22770	22879
Net Tangible Fixed Assets	267226	276690	283263	295292
<b>Total Fixed Assets</b>	<b>289975</b>	<b>307166</b>	<b>306033</b>	<b>318171</b>
<i>% of revenue</i>	<i>202.7%</i>	<i>180.7%</i>	<i>213.5%</i>	<i>215.0%</i>
LT Investments	2653	2954	2901	2915
Inventories	35406	33318	31147	34109
<i>% of revenue</i>	<i>24.7%</i>	<i>19.6%</i>	<i>21.7%</i>	<i>23.1%</i>
Accounts Receivable	37655	46356	41694	43715
<i>% of revenue</i>	<i>26.3%</i>	<i>27.3%</i>	<i>29.1%</i>	<i>29.5%</i>
Cash and ST Investments	64169	86780	85074	89092
<i>% of revenue</i>	<i>44.8%</i>	<i>51.1%</i>	<i>59.4%</i>	<i>60.2%</i>
Other Current Assets	5765	5897	6074	6391
<b>Total Current Assets</b>	<b>142995</b>	<b>172351</b>	<b>163989</b>	<b>173307</b>

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Other Assets	51260	45383	58046	60425
<b>Total Assets</b>	<b>486883</b>	<b>527854</b>	<b>530969</b>	<b>554818</b>
<b>Liabilities &amp; Shareholder's Equity</b>				
Equity & Minorities	182973	201875	216661	236447
<i>% of capital employed</i>	<i>52.7%</i>	<i>55.6%</i>	<i>57.3%</i>	<i>59.6%</i>
LT Debt	67698	64914	64134	61789
Other LT Liabilities	90998	96148	97209	98410
<b>Total LT Liabilities</b>	<b>158696</b>	<b>161062</b>	<b>161343</b>	<b>160199</b>
<i>% of capital employed</i>	<i>45.7%</i>	<i>44.4%</i>	<i>42.7%</i>	<i>40.4%</i>
ST Debt	5733	147	50	76
<i>% of capital employed</i>	<i>1.7%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>
Accounts Payable	72004	84981	73068	81817
<i>% of COGS</i>	<i>50.3%</i>	<i>50.0%</i>	<i>51.0%</i>	<i>55.3%</i>
Other ST Liabilities	67477	79789	79847	76279
<i>% of revenue</i>	<i>47.2%</i>	<i>46.9%</i>	<i>55.7%</i>	<i>51.5%</i>
<b>Total Current Liabilities</b>	<b>145214</b>	<b>164917</b>	<b>152965</b>	<b>158172</b>
<b>Total Liabilities</b>	<b>303910</b>	<b>325979</b>	<b>314308</b>	<b>318371</b>
<b>Total Liabilities &amp; Shareholder's Equity</b>	<b>486883</b>	<b>527854</b>	<b>530969</b>	<b>554818</b>

- When we look at the quarterly Balance Sheet of the company, we see that the Fixed Asset base has evolved from \$306.033 billion to \$318.171 billion over the last 2 quarters.
- The current level of fixed assets, including tangibles & intangibles, is around 215.01% of the company's quarterly turnover.
- The company's receivables were around 29.54% of the quarterly top-line.
- As a result of the positive free cash flows, the company had a final cash and short-term investment balance of \$89.092 billion.
- When we analyze the capital structure of Amazon, we realize that the company relies more on equity to finance its operations.
- The company's equity accounts for 59.60% of its total capital employed whereas debt (both long-term and short-term) accounts for about 40.40% of the total capital.
- Amazon's payables account for 55.29% of its cost of goods sold.

## Sequential Quarter-On-Quarter Analysis - Cash Flow Statement (USD Million)

Particulars	9/30/23	12/31/23	3/31/24	6/30/24
Net Income (GAAP)	9879	10624	10431	13485
+ Depreciation & Amortization	12131	13820	11684	12038
+/- Working Capital, Deferred Taxes & Other Adjustments	-793	18021	-3126	-242
<b>Cash Flow from Operations</b>	<b>21217</b>	<b>42465</b>	<b>18989</b>	<b>25281</b>
<i>% of EBITDA</i>	<i>91.0%</i>	<i>159.6%</i>	<i>70.4%</i>	<i>94.6%</i>
Capital Expenditure	-12479	-14588	-14925	-17620
<i>% of revenues</i>	<i>-8.7%</i>	<i>-8.6%</i>	<i>-10.4%</i>	<i>-11.9%</i>
Other Investment Cash Flow items	726	1987	-2937	-4518

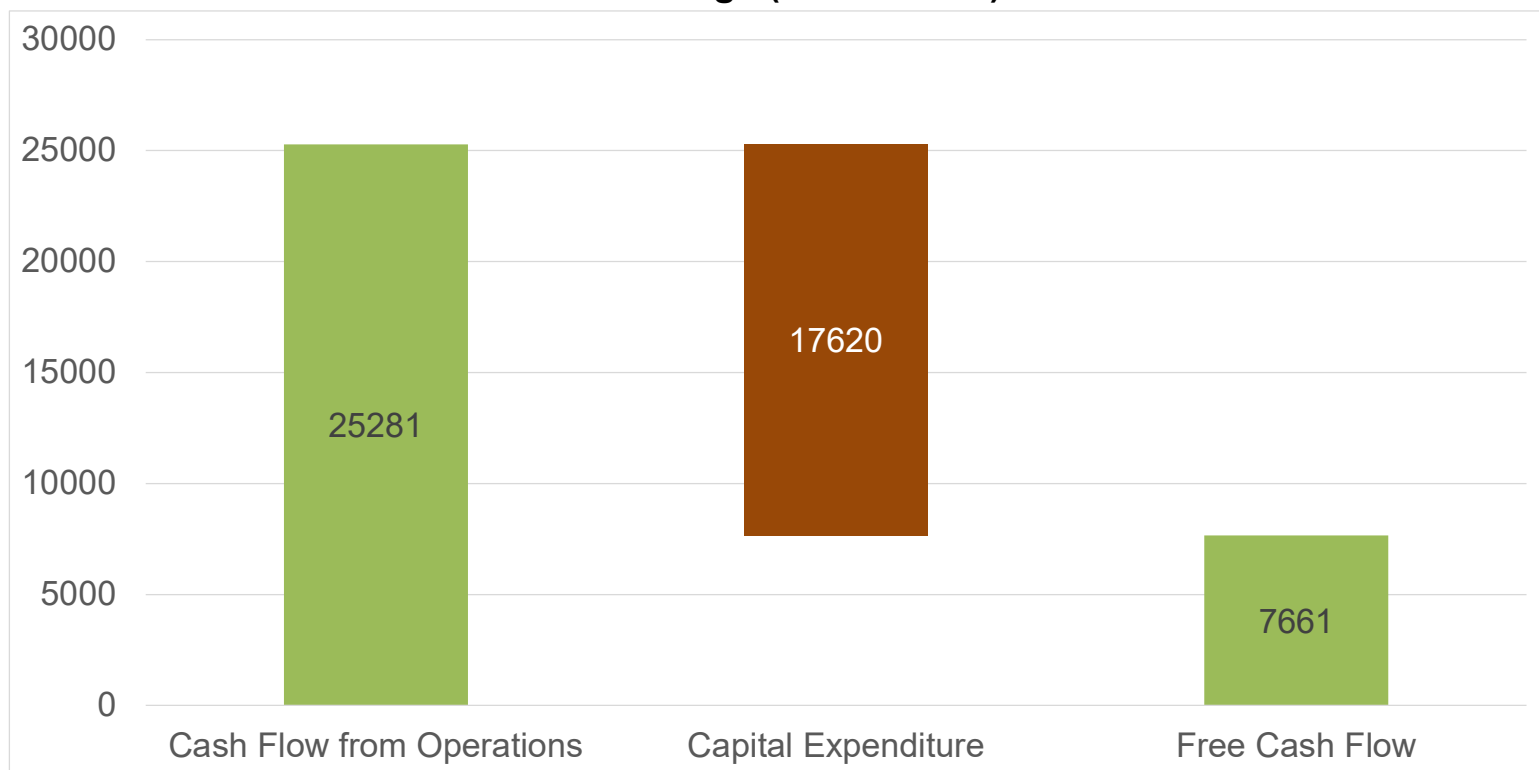
<b>Cash Flow from Investments</b>	<b>-11753</b>	<b>-12601</b>	<b>-17862</b>	<b>-22138</b>
<b>Free Cash Flow</b>	<b>8738</b>	<b>27877</b>	<b>4064</b>	<b>7661</b>
<i>% of EBITDA</i>	<i>37.5%</i>	<i>104.8%</i>	<i>15.1%</i>	<i>28.7%</i>
<b>Cash Flow from Financing</b>	<b>-8948</b>	<b>-6746</b>	<b>-1256</b>	<b>-4490</b>
<b>Net Change In Cash</b>	<b>516</b>	<b>23118</b>	<b>-129</b>	<b>-1347</b>

\* Moving on to the company's sequential quarterly cash flow statement, we see that its EBITDA to Operating Cash Flow conversion ratio has increased from 70.35% to 94.65% in the most recent quarter.

\* Amazon generated \$25.28 billion from operating activities and reported \$-22.14 billion as cash flow from investments which implies a free cash flow of \$7.66 billion for the quarter ended 6/30/24.

\* We can see a breakdown of the Free Cash Flow of the company through a waterfall chart on the following page.

### Free Cash Flow As On 6/30/24 - Bridge (USD Million)



\* The company reported a Cash Flow from Financing of \$-4.49 billion.

## Sequential Quarter-On-Quarter Analysis - Key Ratios (USD Million)

<b>Working Capital Ratios</b>	<b>9/30/23</b>	<b>12/31/23</b>	<b>3/31/24</b>	<b>6/30/24</b>
Receivables Turnover	17.64	17.14	13.58	14.80
Days Receivable	20.9	21.5	26.8	24.6
Inventory Turnover	8.34	10.77	9.01	9.05
Inventory Days	44.1	34.2	40.4	40.2
Working Capital Turnover	-257.92	91.45	52.00	39.11
Days Payable	88.1	79.8	102.1	91.8
Current Ratio	0.98	1.05	1.07	1.10
Quick Ratio	0.70	0.81	0.83	0.84

<b>Solvency Ratios</b>	<b>9/30/23</b>	<b>12/31/23</b>	<b>3/31/24</b>	<b>6/30/24</b>
Total Debt / Equity	90.80%	80.00%	74.10%	66.80%
Total Debt / Capital	47.60%	44.50%	42.60%	40.00%
Total Liabilities / Total Assets	62.40%	61.80%	59.20%	57.40%
EBIT / Interest Expense	13.88	17.94	23.77	24.91
EBITDA / Interest Expense	32.96	41.78	47.29	51.31
(EBITDA - Capex) / Interest Expense	17.48	21.32	24.11	21.40
FFO Interest Coverage	26.32	59.56	29.49	42.92
FFO to Total Debt (x)	0.51	1.05	0.47	0.64

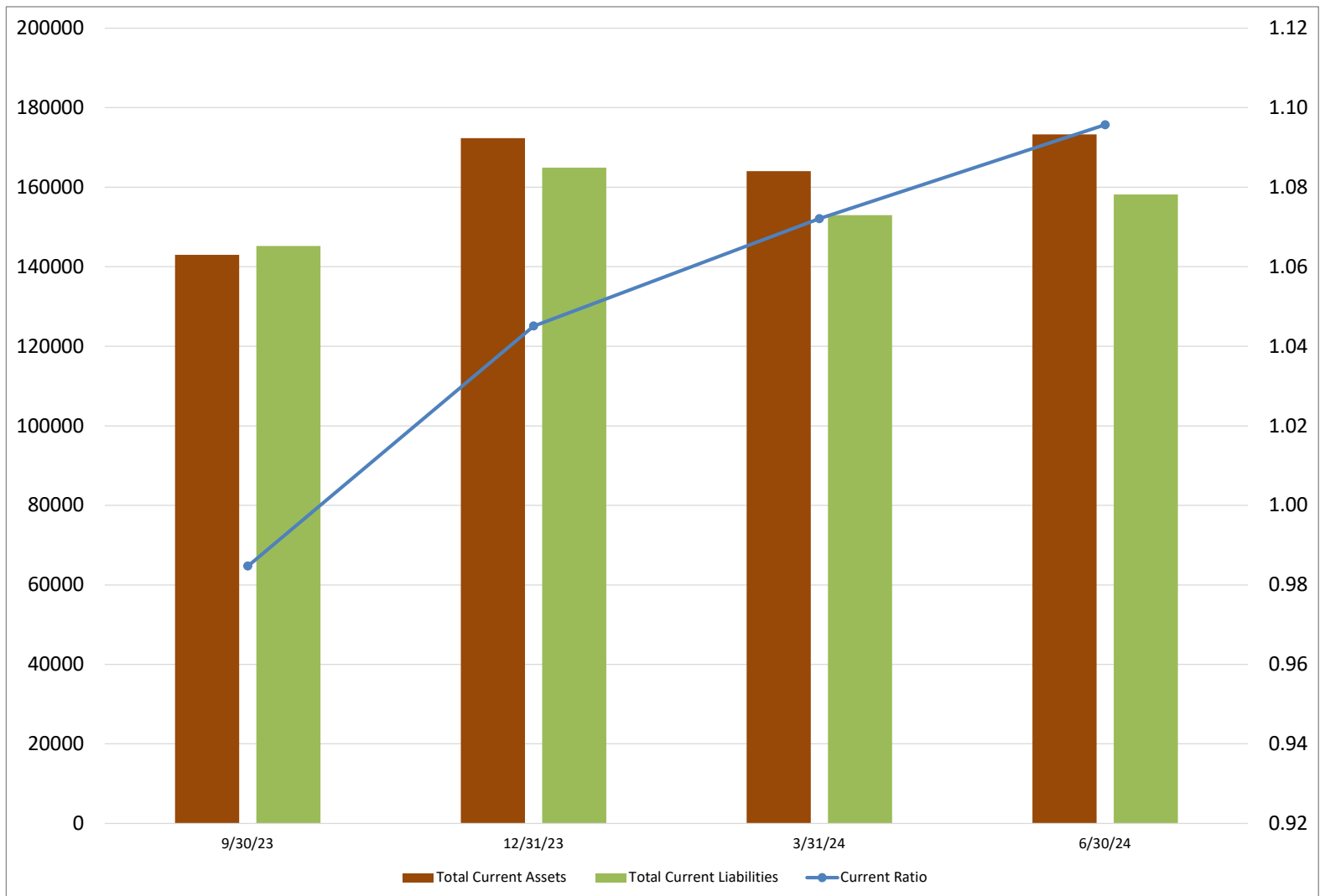
Total Debt / EBITDA	1.56	1.36	1.32	1.31
Net Debt / EBITDA	0.96	0.63	0.62	0.57
Net Debt / (EBITDA - Capex)	1.81	1.23	1.22	1.36

Return Ratios	9/30/23	12/31/23	3/31/24	6/30/24
Return on Assets %	5.8%	6.3%	7.2%	6.8%
Return on Capital %	12.8%	14.1%	16.2%	14.9%
Return On Equity %	22.5%	22.1%	19.9%	23.8%
Return on Common Equity %	22.5%	22.1%	19.9%	23.8%

- Now let us take a closer look at the evolution of some of the key quarterly ratios of the company. The most important ratios to look at in terms of quarterly evolution are essentially the working capital ratios.
- We see Amazon's receivable days fall from 26.81 to 24.6 over the past two quarters.
- On the other hand, the company's days payable have decreased from 102.06 to 91.82 over the past couple of quarters.
- When we analyze the working capital turnover over the company, we see that Amazon's revenues are as much as 39.11 times its total exposure to working capital investment.
- In the FFO/ Total Debt ratio, FFO stands for funds from operations. This is a leverage ratio that an investor can use to evaluate a company's financial risk. It measures the ability of a company to pay off its debt using net operating income alone.
- We see Amazon's FFO/ Total Debt ratio as 0.64 which means that from a financial leverage and capital gearing standpoint, the company has a VERY LOW RISK profile.



## Current Assets & Current Liabilities (USD Million)



## Historical Income Statement - Annual (USD Million)

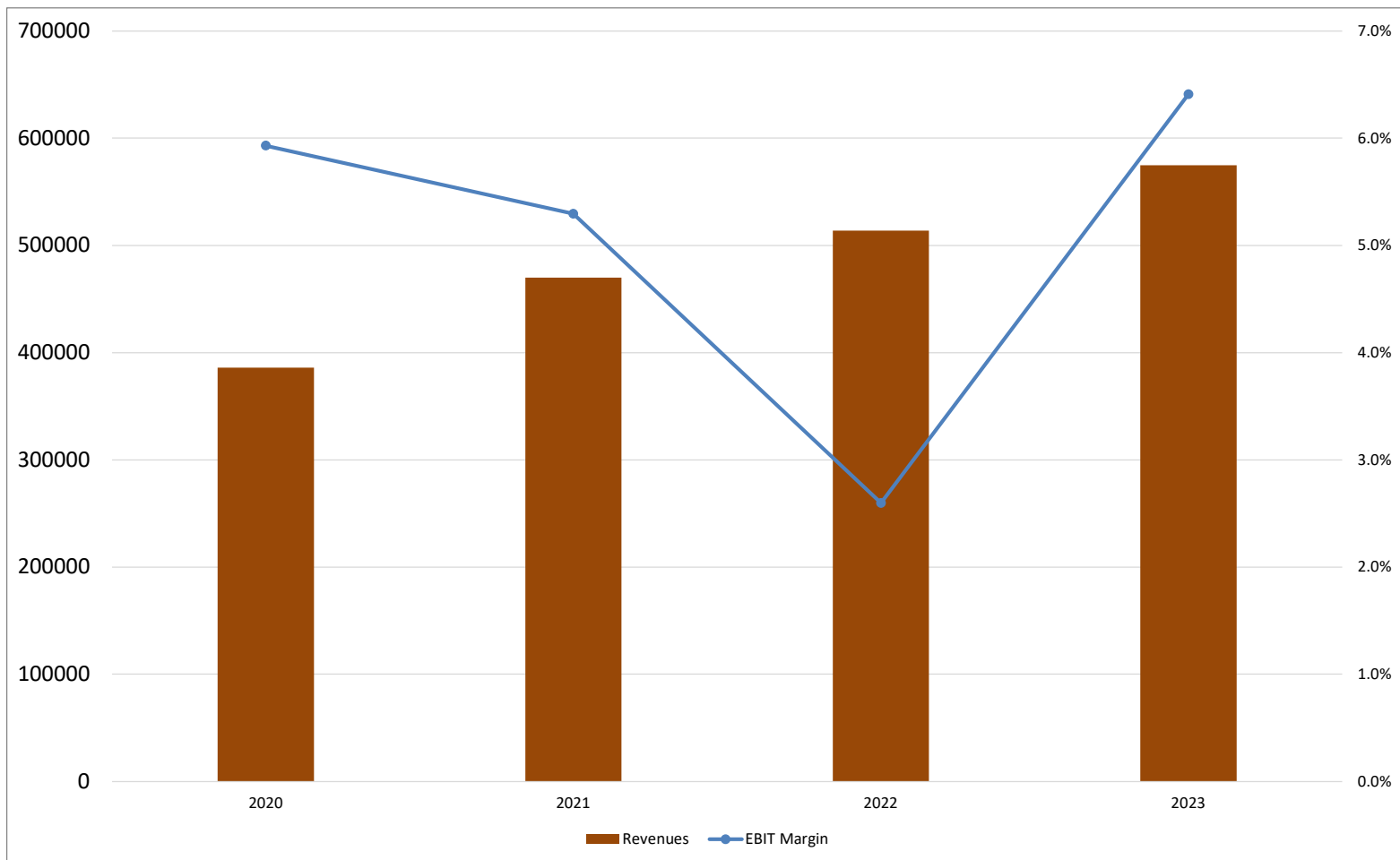
Particulars	2020	2021	2022	2023
Revenues	386064	469822	513983	574785
<i>% growth</i>		21.7%	9.4%	11.8%
Cost of Goods Sold	-233307	-272344	-288831	-304739
<i>% of revenue</i>	-60.4%	-58.0%	-56.2%	-53.0%
Gross Income (excl. D&A)	152757	197478	225152	270046
<i>% of revenue</i>	39.6%	42.0%	43.8%	47.0%

# Baptista Research

EBITDA	48079	59312	55269	85515
<i>% of revenue</i>	12.5%	12.6%	10.8%	14.9%
Depreciation & Amortization	25180	34433	41921	48663
<i>% of Fixed Assets</i>	14.8%	14.5%	15.0%	15.8%
Extraordinary Expenses	0	0	0	0
EBIT	22899	24879	13348	36852
<i>% of revenue</i>	5.9%	5.3%	2.6%	6.4%
Pretax Income	24194	38155	-5939	37545
<i>% of revenue</i>	6.3%	8.1%	-1.2%	6.5%
Income Tax	2863	4791	-3217	7120
<i>% rate</i>	11.8%	12.6%	54.2%	19.0%
Net Income	21331	33364	-2722	30425
<i>% of revenue</i>	5.5%	7.1%	-0.5%	5.3%

- When we analyze the company's annualized historical income statement, we see that the top-line was \$574.785 billion for the previous financial year ending in 2023.
- The revenue growth was 11.83% in 2023 as compared to around 9.40% in 2022.
- Amazon's cost of goods sold has increased from -56.19% to -53.02% as a percentage of the top-line resulting in a drop in the gross margins.
- The company's overall annual EBITDA margin of 14.88% is lower than the reported quarterly EBITDA margin for the most recent quarter.
- Non-cash expenses in the form of depreciation and amortization have gone up as compared to the result in 2022.

## Revenue & Operating Margin (USD Million)



\* In terms of the bottom-line, Amazon reported an operating income (EBIT) of \$36.852 billion and a net income of \$30.425 billion resulting in an EPS of \$-0.27.

\* The good news for investors holding the stock is that its net margin had increased from -0.53% in 2022 to 5.29% in 2023.

## Historical Balance Sheet - Annual (USD Million)

Particulars	2020	2021	2022	2023
<b>Assets</b>				
Net Intangible Fixed Assets	19998	20478	26385	30476
Net Tangible Fixed Assets	150667	216363	252838	276690
<b>Total Fixed Assets</b>	<b>170665</b>	<b>236841</b>	<b>279223</b>	<b>307166</b>

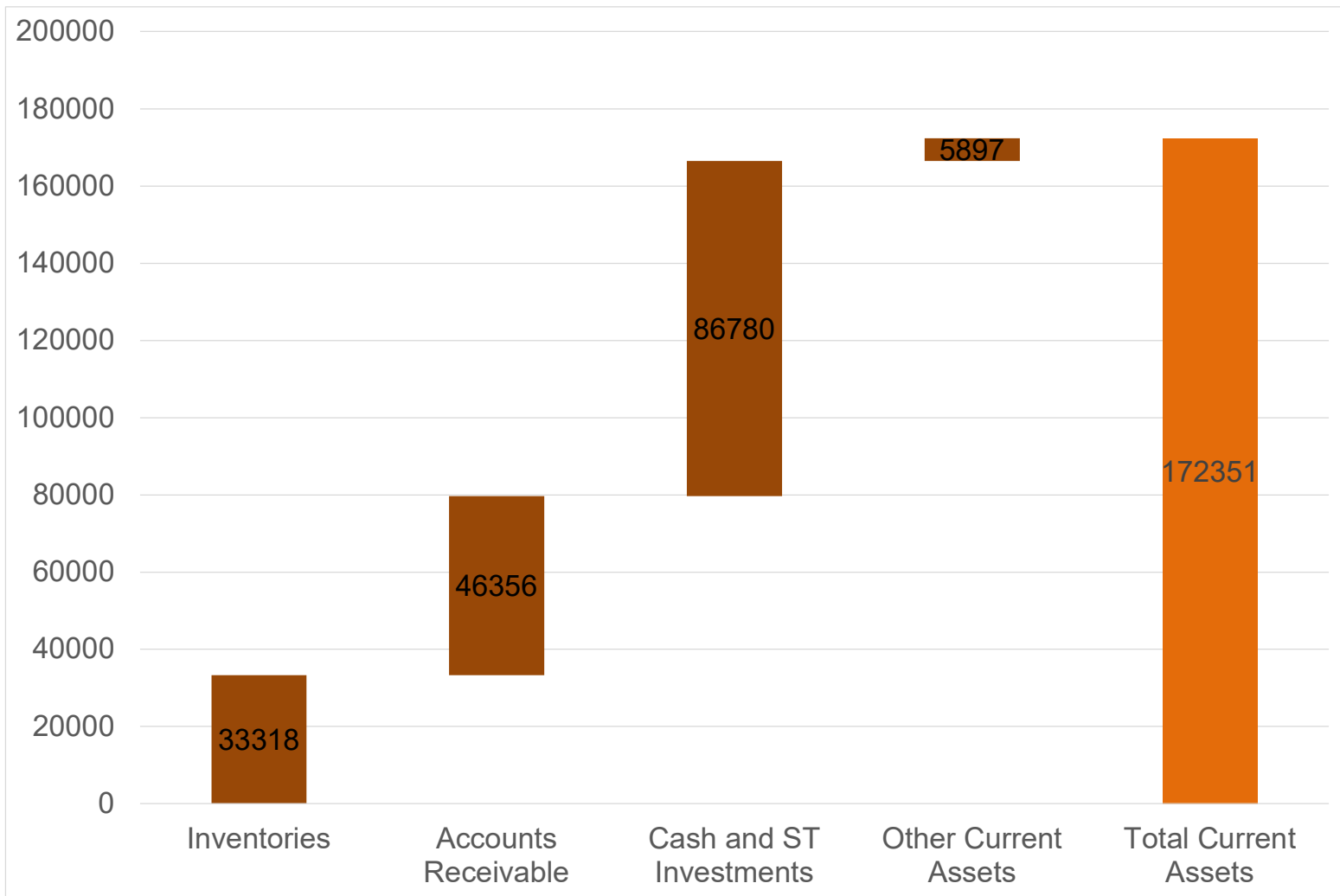
# Baptista Research

<i>% of revenue</i>	44.2%	50.4%	54.3%	53.4%
LT Investments	5700	4003	2815	2954
Inventories	23795	32640	34405	33318
<i>% of revenue</i>	6.2%	6.9%	6.7%	5.8%
Accounts Receivable	24309	32649	37502	46356
<i>% of revenue</i>	6.3%	6.9%	7.3%	8.1%
Cash and ST Investments	84396	96049	70026	86780
<i>% of revenue</i>	21.9%	20.4%	13.6%	15.1%
Other Current Assets	233	242	4858	5897
<b>Total Current Assets</b>	<b>132733</b>	<b>161580</b>	<b>146791</b>	<b>172351</b>
Other Assets	12097	18125	33846	45383
<b>Total Assets</b>	<b>321195</b>	<b>420549</b>	<b>462675</b>	<b>527854</b>
<b>Liabilities &amp; Shareholder's Equity</b>				
Equity & Minorities	93404	138245	146043	201875
LT Debt	35216	54944	73850	64914
Other LT Liabilities	66190	85094	87389	96148
<b>Total LT Liabilities</b>	<b>101406</b>	<b>140038</b>	<b>161239</b>	<b>161062</b>

ST Debt	725	1043	8000	147
Accounts Payable	72539	78664	79600	84981
% of COGS	18.8%	16.7%	15.5%	14.8%
Other ST Liabilities	53121	62559	67793	79789
<b>Total Current Liabilities</b>	<b>126385</b>	<b>142266</b>	<b>155393</b>	<b>164917</b>
<b>Total Liabilities</b>	<b>227791</b>	<b>282304</b>	<b>316632</b>	<b>325979</b>
<b>Total Liabilities &amp; Shareholder's Equity</b>	<b>321195</b>	<b>420549</b>	<b>462675</b>	<b>527854</b>

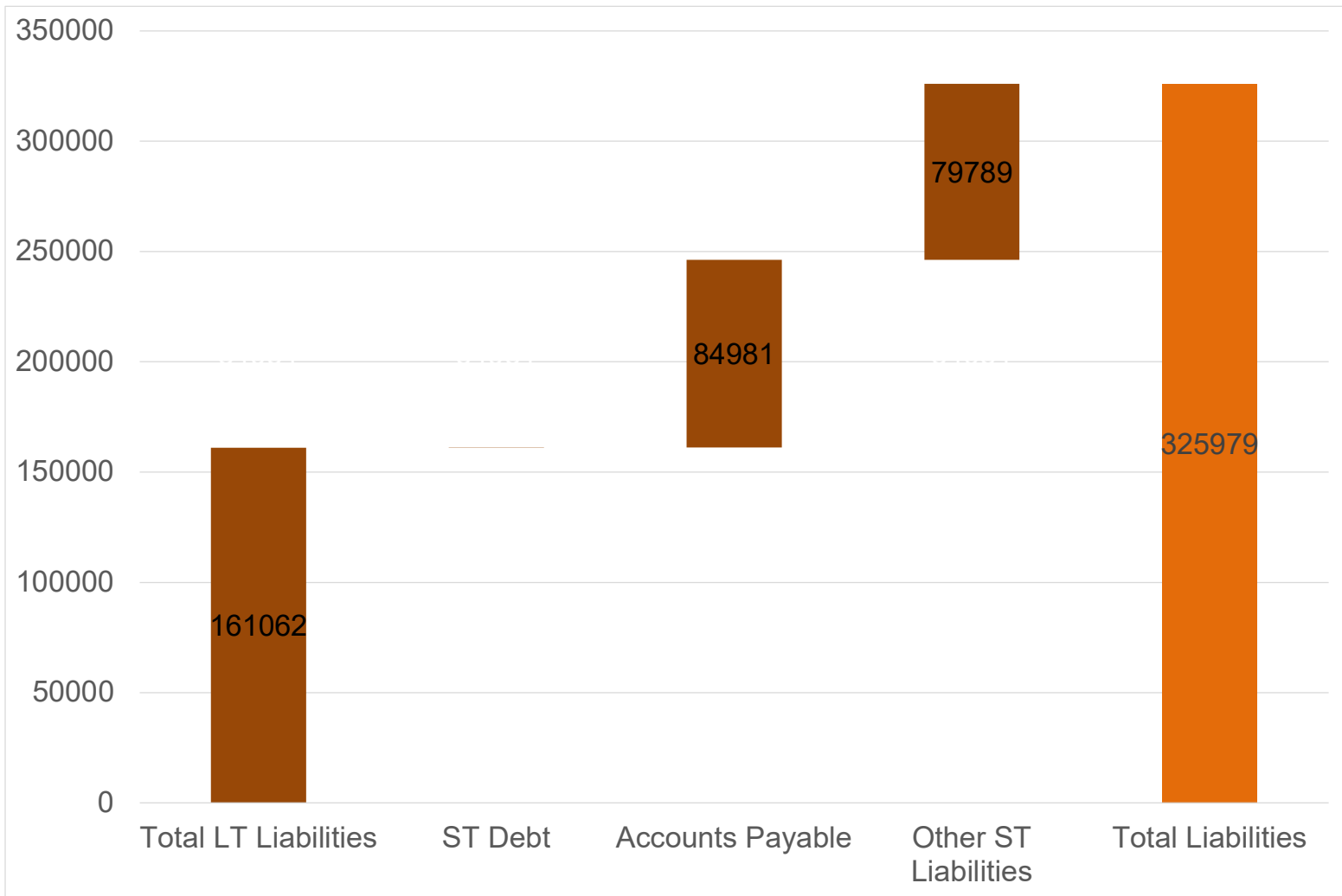
- Moving on to the company's historical annualized balance sheet, when we analyze the fixed assets versus the revenues, we see that the percentage has evolved from 54.33% to 53.44%
- Its receivables of \$46.356 billion are about 8.06% of the top-line.
- Amazon has close to \$86.78 billion in terms of liquidity i.e. cash and short term investments.
- On the other hand, its payables for 2023 account for around 14.78% of the cost of goods sold. We can see a more detailed breakdown of the total current assets in the chart on the following page.

## Total Current Assets (2023) - Waterfall Analysis (USD Million)



- The company's long term debt is around 0.8x times its equity.
- Apart from the long term debt, we can also see the level of short term debt, equity and all other forms of long and short term liabilities and how they come together to total up to the Total Liabilities & Shareholders Equity of the company.

### Total Liabilities (2023) - Waterfall Analysis (USD Million)



### Historical Cash Flow Statement - Annual (USD Million)

Particulars	2020	2021	2022	2023
Net Income (GAAP)	21331	33364	-2722	30425
+ Depreciation & Amortization	25180	34433	41921	48663
+/- Working Capital, Deferred Taxes & Other Adjustments	19553	-21470	7553	5858

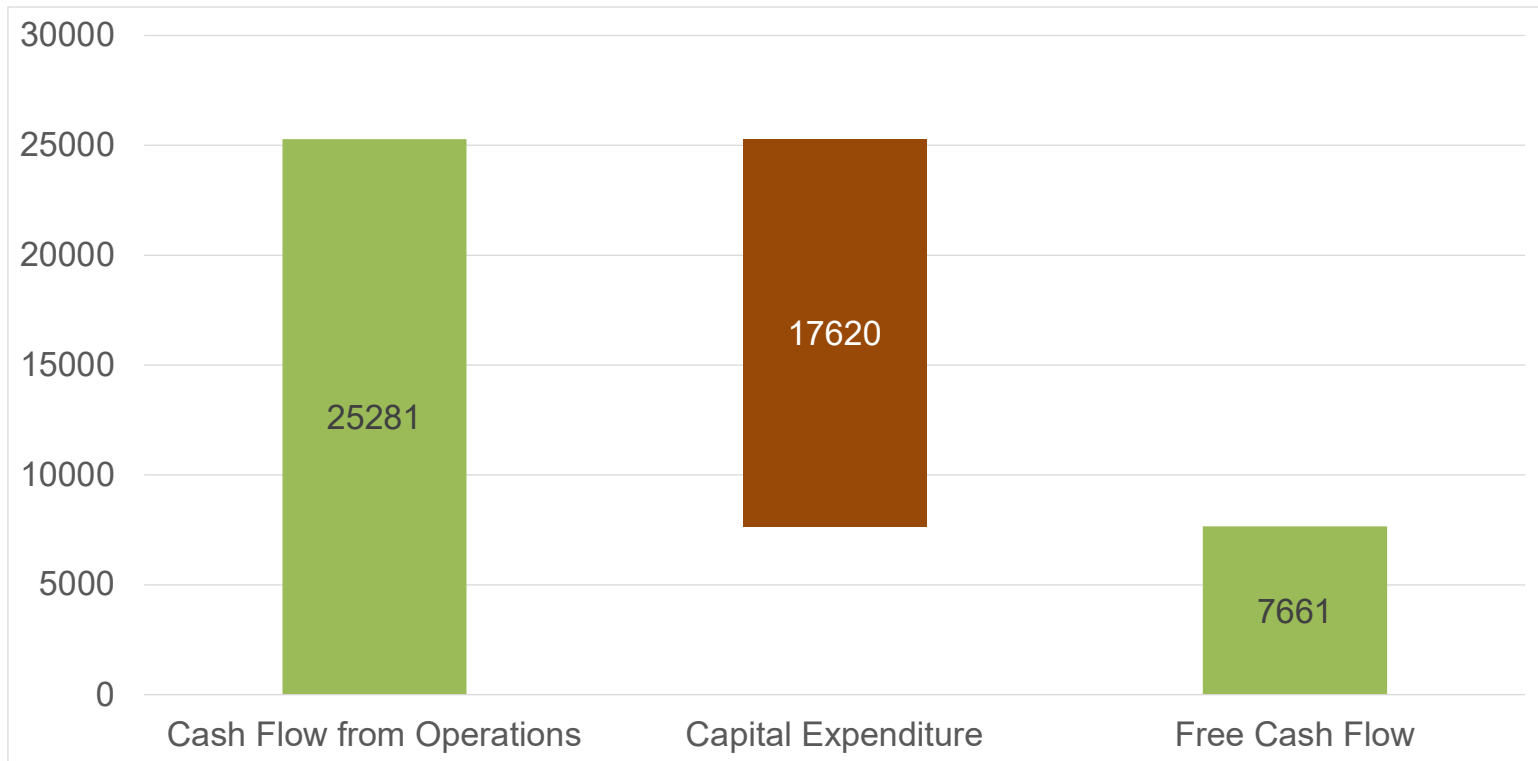
<b>Cash Flow from Operations</b>	<b>66064</b>	<b>46327</b>	<b>46752</b>	<b>84946</b>
<i>% of EBITDA</i>	<i>137.4%</i>	<i>78.1%</i>	<i>84.6%</i>	<i>99.3%</i>
Capital Expenditure	-40140	-61053	-63645	-52729
<i>% of revenues</i>	<i>-10.4%</i>	<i>-13.0%</i>	<i>-12.4%</i>	<i>-9.2%</i>
Other Investment Cash Flow items	-19471	2899	26044	2896
<b>Cash Flow from Investments</b>	<b>-59611</b>	<b>-58154</b>	<b>-37601</b>	<b>-49833</b>
<b>Free Cash Flow</b>	<b>25924</b>	<b>-14726</b>	<b>-16893</b>	<b>32217</b>
<i>% of EBITDA</i>	<i>53.9%</i>	<i>-24.8%</i>	<i>-30.6%</i>	<i>37.7%</i>
<b>Cash Flow from Financing</b>	<b>-1104</b>	<b>6291</b>	<b>9718</b>	<b>-15879</b>
<b>Net Change In Cash</b>	<b>5349</b>	<b>-5536</b>	<b>18869</b>	<b>19234</b>

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- Amazon's Cash Flow from Operations as a % of EBITDA went up which is a good sign.
- The company delivered a positive free cash flow of \$32.217 billion in 2023.
- It was able to convert about 37.67% into free cash flows which was higher than the previous financial year.
- Amazon reported \$-15.879 billion as Cash Flow from Financing for 2023 which was lower than the previous year.
- We can see a complete breakdown of the Net Change in Cash of the company in the waterfall chart on the following page.



## Free Cash Flow (2023) - Bridge (USD Million)



## Key Ratios - Annual

Other Metrics	2020	2021	2022	2023
Total Cash Dividends Paid	0.00	0.00	0.00	0.00
<i>% growth</i>		NA	NA	NA
Total Common Shares Outstanding	10,071	10,177	10,247	10,387
<i>% change</i>		1.0%	0.7%	1.4%
Dividend Per Share	0.00	0.00	0.00	0.00
<i>% change</i>		NA	NA	NA

Operating Ratios	2020	2021	2022	2023
Receivables Turnover	15.9	14.4	13.7	12.4

Days Receivable	23.0	25.4	26.6	29.4
Inventory Turnover	9.8	8.3	8.4	9.1
Inventory Days	37.2	43.7	43.5	39.9
Payables Turnover	3.2	3.5	3.6	3.6
Days Payable	113.5	105.4	100.6	101.8
Current Ratio	1.05	1.14	0.94	1.05
Quick Ratio	0.86	0.90	0.69	0.81
Working Capital Turnover	60.82	24.33	-59.75	77.32
Fixed Asset Turnover	2.3	2.0	1.8	1.9
Total Asset Turnover	1.2	1.1	1.1	1.1

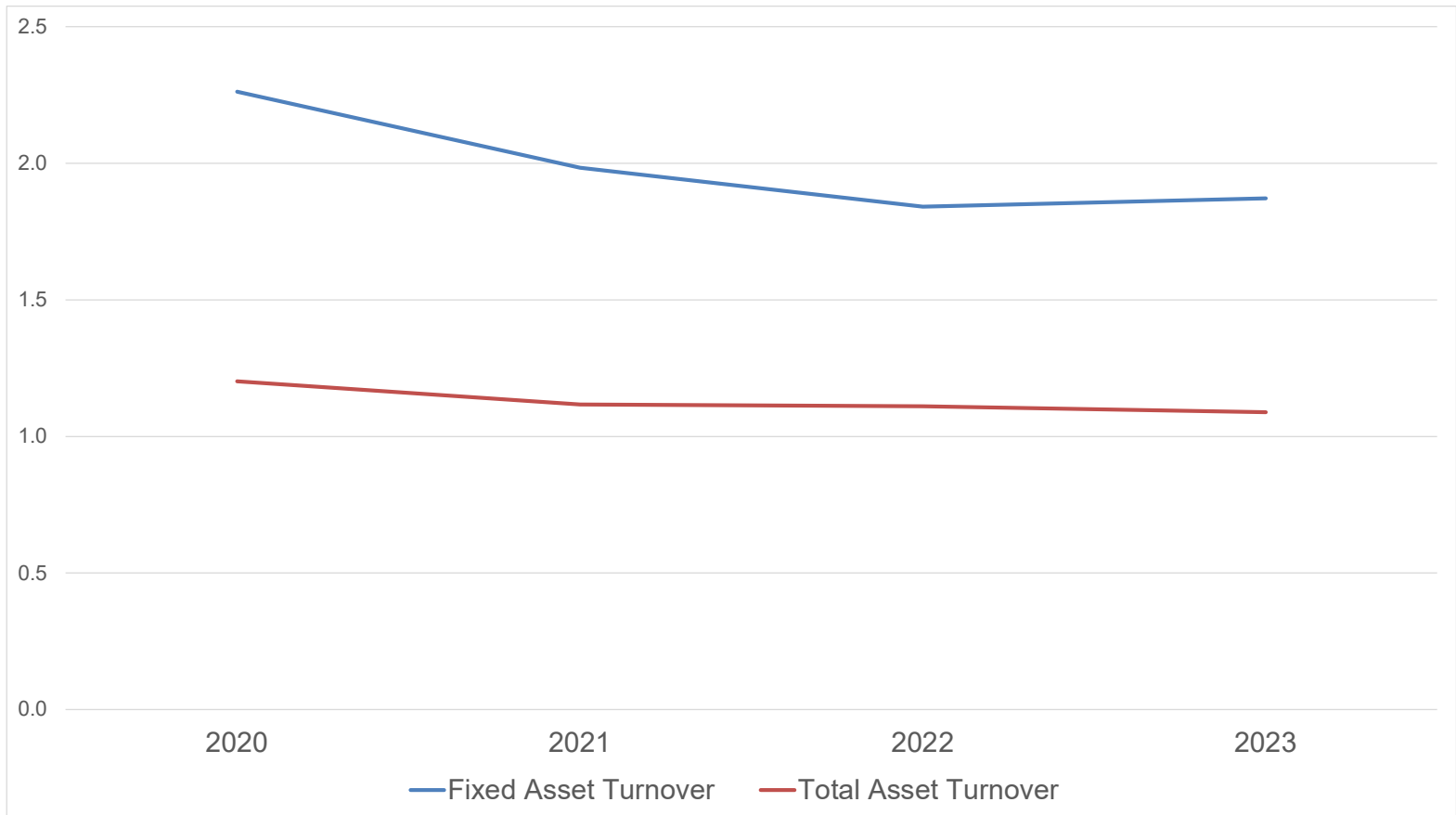
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- \* The company does not pay any dividend.
- \* Amazon's total common shares outstanding have increased in 2023 by 1.37% implying a share issuance.
- \* The receivables turnover helps quantify a company's effectiveness in collecting the money owed by clients and demonstrates how well it uses and manages the credit it extends to customers.
- \* As per the days receivable, the company takes an average period of 29.4 days to collect money from its clients which appears to be reasonable.
- \* The inventory turnover shows the number of times a given company has sold and replaced inventory during the year and is an indicator of how many days of working capital is blocked in inventory.
- \* As per the inventory days ratio, Amazon holds an average inventory of 39.9 days which appears to be reasonable.
- \* The accounts payable turnover is a short-term liquidity measure used to quantify the rate at which a company pays off its suppliers. It shows how many days of credit a company gets from its suppliers.
- \* As per the days payable, the company takes an average period of 101.8 days to pay off its creditors which appears to be reasonable.
- \* The fixed asset turnover ratio measures how well a company generates sales from its tangible as well as intangible fixed assets. The higher the ratio, the greater the company's efficiency to its assets to generate revenues.
- \* Amazon's fixed assets turnover ratio of 1.9 has increased in 2023 indicating that the company is generating greater revenues from its fixed assets.

\* The total asset turnover ratio measures the value of a company's sales or revenues relative to the value of its assets. The higher the asset turnover ratio, the more efficient a company is, with respect to using its assets to generate revenues.

\* Amazon's total assets turnover has decreased to 1.09 in 2023.

## Evolution of Fixed Assets Turnover & Total Assets Turnover



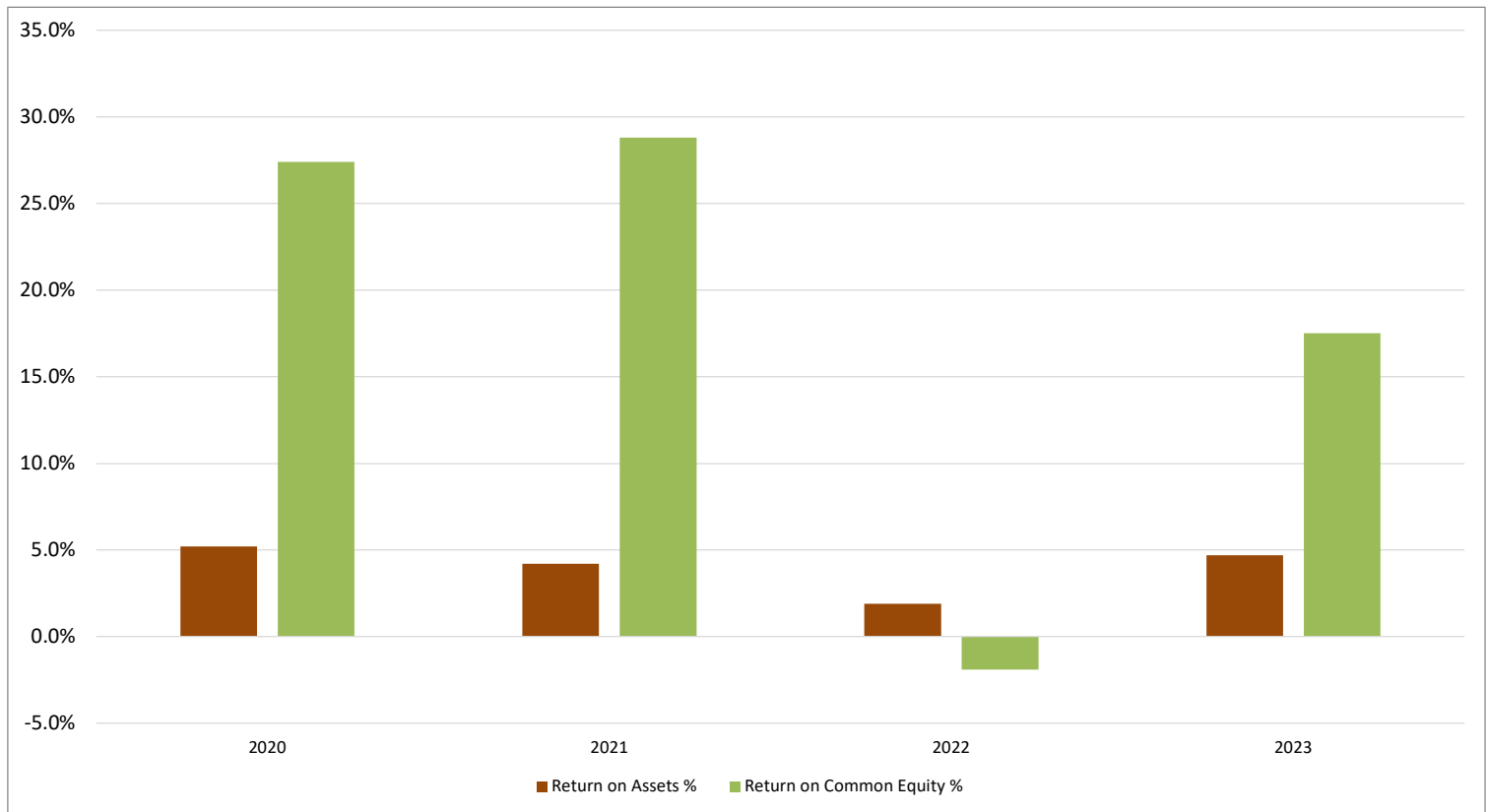
Operating Ratios	2020	2021	2022	2023
Total Debt / Equity	112.10%	101.10%	116.40%	80.00%
Total Debt / Capital	52.90%	50.30%	53.80%	44.50%
Total Liabilities / Total Assets	70.90%	67.10%	68.40%	61.80%
EBIT / Interest Expense	13.90	13.75	5.64	11.58
EBITDA / Interest Expense	32.99	37.63	27.87	30.87

(EBITDA - Capex) / Interest Expense	8.62	3.88	0.98	14.30
FFO Interest Coverage	40.11	25.61	19.75	26.70
FFO to Total Debt (x)	0.63	0.33	0.28	0.53
Total Debt / EBITDA	1.93	2.05	2.58	1.64
Net Debt / EBITDA	0.37	0.64	1.51	0.76
Net Debt / (EBITDA - Capex)	1.43	6.23	43.01	1.64

Other Ratios	2020	2021	2022	2023
Return on Assets %	5.2%	4.2%	1.9%	4.7%
Return on Capital %	11.6%	8.9%	4.2%	10.1%
Return On Equity %	27.4%	28.8%	-1.9%	17.5%
Return on Common Equity %	27.4%	28.8%	-1.9%	17.5%

- \* Return on assets is an excellent indicator of how efficient a company's management is in generating earnings from their economic resources or assets on their balance sheet.
- \* On the other hand, the return on equity of a company measures the value creation of the management and profitability in relation to stockholders' equity.
- \* The company's overall Return on Assets is 4.70%.
- \* Amazon's Return on Equity is 17.50%. The company's Return on Equity is higher than its Return on Assets and this is because it uses debt to maximize shareholder returns.

## Evolution of Return on Equity & Return on Assets



• In the above chart, we see the evolution of the company's return on equity and its return on assets.

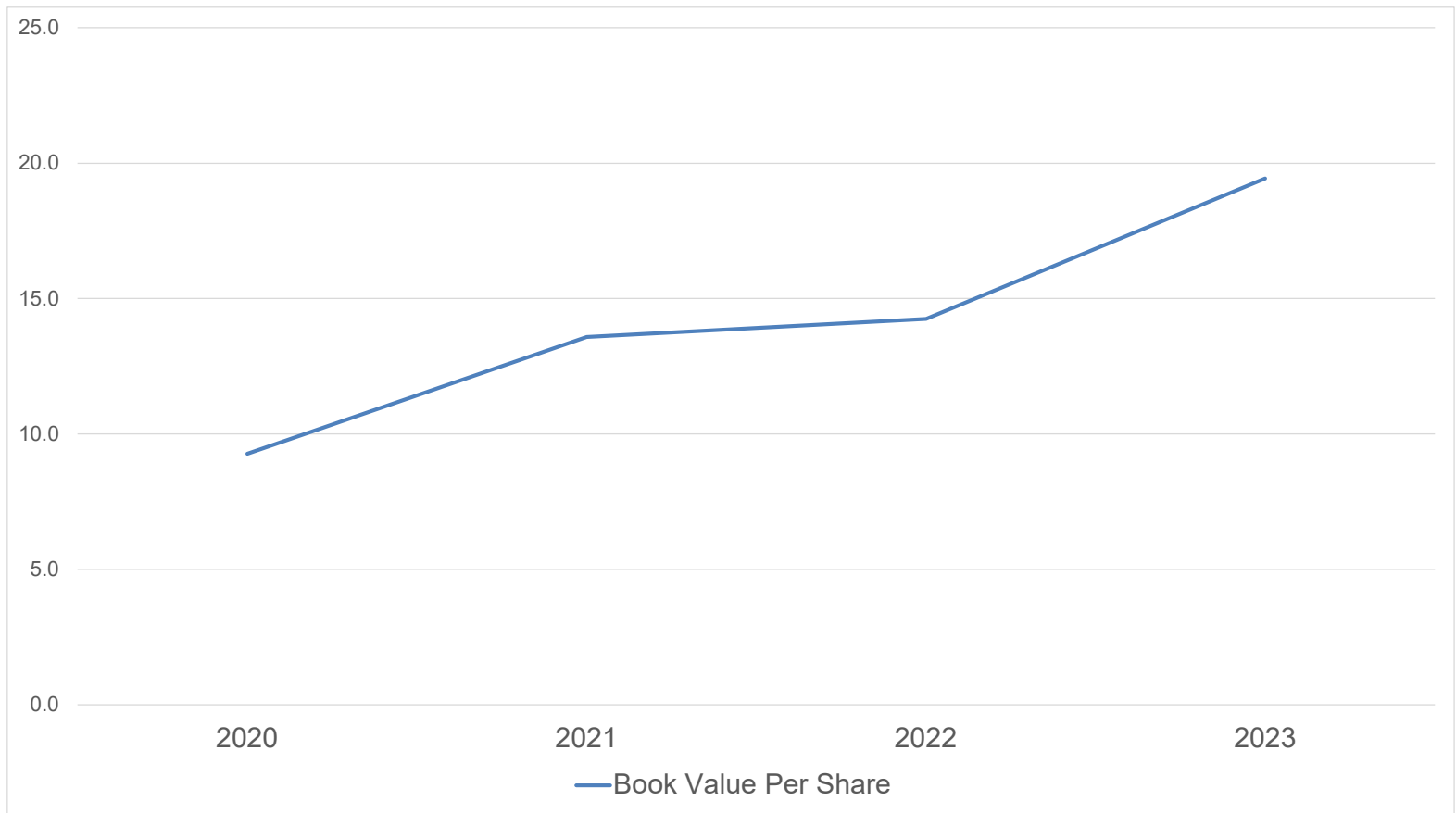
## Book Value Per Share, Price-to-Book Ratio & Graham Number Analysis

We can see the evolution of the book value per share and the Graham Number of the company in the table below:

Particulars	2020	2021	2022	2023
Book Value Per Share	9.3	13.6	14.3	19.4
Graham Number	20.9	31.5	NA	35.6

- ° We can see that Amazon's Book Value Per Share is 19.43 which results in a Price-to-Book ratio of 8.53.
- ° You can also see in the above table that we have shown the evolution of the Graham number, a popular metric evaluates a stock's fundamental worth by examining the company's earnings per share (EPS) and book value per share.
- ° This concept was developed by renowned value investor and 'father of value investing', Benjamin Graham and sets a maximum price an investor should pay for a stock.
- ° It is calculated as the geometric mean of 2 components: the stock price assuming a Price-to-Earnings ratio of 15x and the stock price assuming a book value per share of 1.5x.
- ° This is the reason why the Graham Number metric incorporates a factor of 22.5, stemming from Graham's criteria that a price-to-earnings ratio below 15x and a book value per share below 1.5x are the maximum valuation multiples an investor should pay for a stock.
- ° While useful, the Graham number omits some critical investment factors like management quality, industry insights, and the competitive environment; fundamental analysis of stocks often considers these alongside key metrics to gauge value.
- ° Amazon's Graham Number as per its latest annual balance sheet is 35.61 which is well below the current market price indicating that the stock might be overvalued.
- ° We can see an evolution of the company's Book Value Per Share & its Graham Number in the chart on the following page.

## Evolution Of Book Value Per Share



## Top Institutional Shareholders

Investor Name	Value of Shares Held (MM)	% Of Shares Outstanding Held	# Shares Held	% Change in # of Shares Held	This Holding as % of Firm's Portfolio
Bezos (Jeffrey P)	153867.4	8.84%	928029899	-0.92%	102.83%
The Vanguard Group, Inc.	129632.9	7.45%	781863009	1.93%	1.94%
BlackRock Institutional Trust Company, N.A.	67646.3	3.89%	407999117	1.58%	1.94%
State Street Global Advisors (US)	58296.4	3.35%	351606995	2.01%	2.70%
Fidelity Management & Research Company LLC	51757.7	2.97%	312169562	2.54%	2.61%
Geode Capital Management, L.L.C.	31144.3	1.79%	187842762	3.87%	2.70%
T. Rowe Price Associates, Inc.	29369.2	1.69%	177136453	-1.66%	2.95%
Norges Bank Investment Management (NBIM)	19315.2	1.11%	116496979	13.64%	1.62%
JP Morgan Asset Management	19137.3	1.10%	115423740	8.49%	0.00%
Capital Research Global Investors	14421.8	0.83%	86982857	0.00%	0.00%

\* We can see the list of the largest institutional shareholders of Amazon in the above table.



- ° As we can see above Bezos (Jeffrey P) is the currently the largest institutional shareholder in the company and currently holds 8.84% of the total outstanding shares of the company.
- ° They are followed by The Vanguard Group, Inc. which holds a 7.45% in Amazon.
- ° In the above list of institutions, we see that Norges Bank Investment Management (NBIM) has shown a particular interest in increasing their stake in Amazon.
- ° Similarly, if we analyze the Amazon stock as a percentage of the total holdings of the above mentioned institutions, we see that Bezos (Jeffrey P) in the above list, has the highest exposure to the company i.e., 102.83%.
- ° We can see the list of the recent list of the insider transactions in Amazon in the table below:

## Recent Insider Transactions

Insider	Date	# Shares	Price	Type	Filing
Herrington (Douglas J)	8/1/24	-3500	189.25	DIR	Form 4
Selipsky (Adam N)	7/18/24	NA	NA	UNK	Form 144
Selipsky (Adam N)	7/17/24	NA	NA	UNK	Form 144
Bezos (Jeffrey P)	7/11/24	-403974	200.03	DIR	Form 4
Bezos (Jeffrey P)	7/10/24	-266396	200.01	DIR	Form 4
Bezos (Jeffrey P)	7/9/24	-1996015	200.12	DIR	Form 4
Bezos (Jeffrey P)	7/8/24	-57199	201.05	DIR	Form 4
Bezos (Jeffrey P)	7/8/24	-1171794	200.33	DIR	Form 4
Bezos (Jeffrey P)	7/5/24	-3085116	200.07	DIR	Form 4
Bezos (Jeffrey P)	7/3/24	-201449	200	DIR	Form 4

## Forecasted Income Statement - Annual (USD Million)

Particulars	2022	2023	2024E	2025E	2026E
Revenue	513983	574785	635832	705840	780716
<i>% growth</i>		11.8%	10.6%	11.0%	10.6%
Cost of Goods Sold	-288831	-304739	-336806	-373558	-412818
<i>% of revenue</i>	-56.2%	-53.0%	-53.0%	-52.9%	-52.9%
Gross Income (excl. D&A)	225152	270046	299026	332282	367898
<i>% of revenue</i>	43.8%	47.0%	47.0%	47.1%	47.1%
EBITDA	55269	85515	136553	158219	185912
<i>% of revenue</i>	10.8%	14.9%	21.5%	22.4%	23.8%
Depreciation & Amortization	41921	48663	74631	81652	90763
EBIT	13348	36852	61921	76567	95149
<i>% of revenue</i>	2.6%	6.4%	9.7%	10.8%	12.2%
EBT (GAAP) Actual	-5939	37545	61003	77600	100127
<i>% of revenue</i>	-1.2%	6.5%	9.6%	11.0%	12.8%
Net Income (GAAP)	-2722	30425	50281	62809	78114
<i>% of revenue</i>	-0.5%	5.3%	7.9%	8.9%	10.0%
EPS (GAAP)	2.95	-0.27	4.79	5.98	7.44

\* Now let us move on to Baptista Research's forecasts for Amazon's income statement and cash flows.

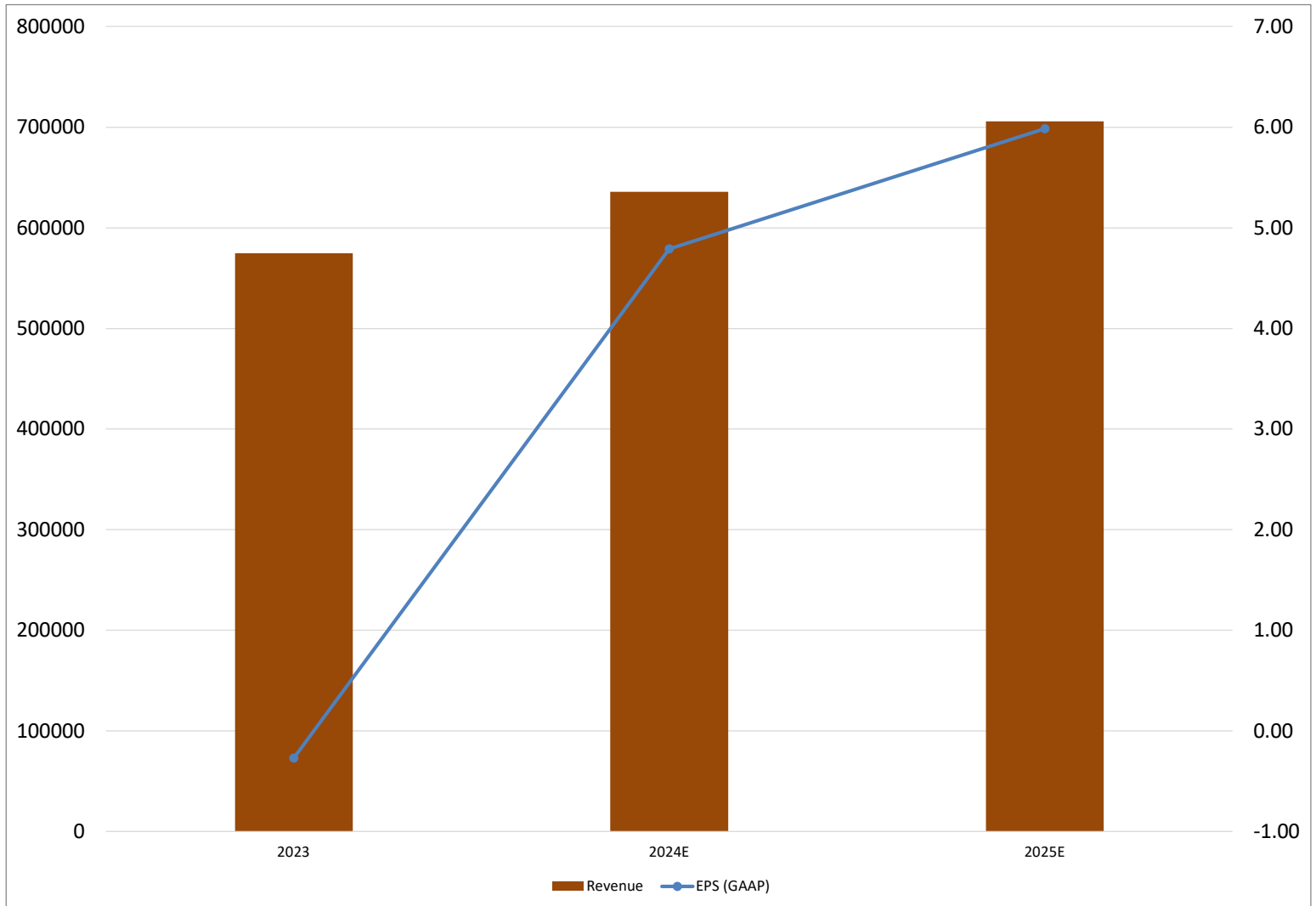
\* We forecast a top-line growth of 10.6% for 2024, around 11.0% for 2025, and about 11.0% for 2026.

\* This growth is expected to translate into an EBITDA of \$136.55 billion in 2024 with a margin of 21.48%

\* Amazon's EBIT margin is expected to be 9.74% in 2024, about 10.85% in 2025, and 10.85% in 2026.

- Our estimate for the company's Net Income (GAAP) is \$50.28 billion implying a net margin of 7.91% and resulting in an earnings per share of \$4.79.
- We expect the growth to follow a similar trend in 2025 and 2026.

## Forecasted Revenues & Earnings Per Share

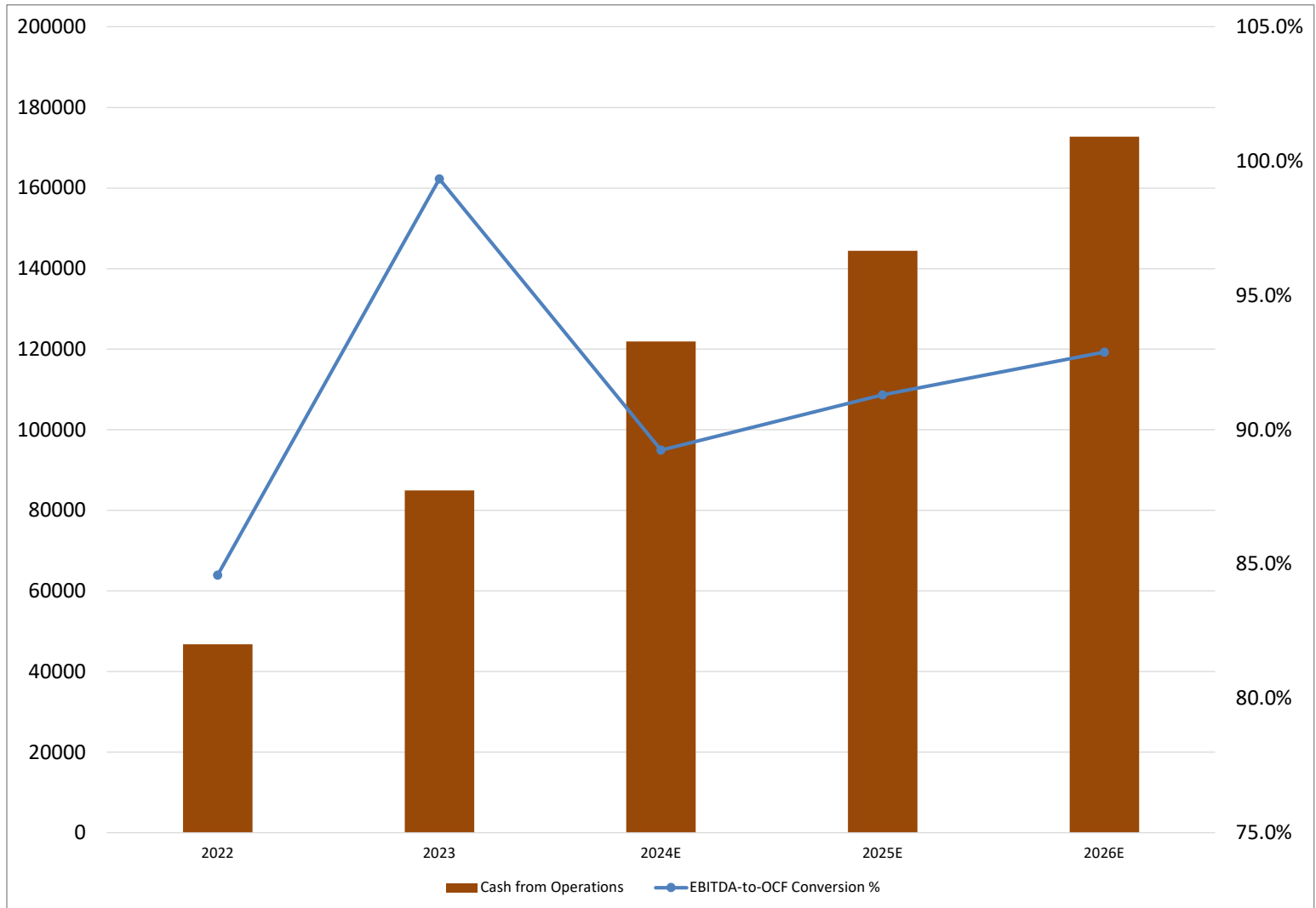


## Forecasted Cash Flow Statement (USD Million)

Particulars	2022	2023	2024E	2025E	2026E
Net Income (GAAP)	-2722	30425	50281	62809	78114
+ Depreciation & Amortization	41921	48663	74631	81652	90763
+/- Working Capital, Deferred Taxes & Other Adjustments	7553	5858	-3041	-16	3807
<b>Cash from Operations</b>	<b>46752</b>	<b>84946</b>	<b>121871</b>	<b>144445</b>	<b>172684</b>
<i>% of EBITDA</i>	<i>84.6%</i>	<i>99.3%</i>	<i>89.2%</i>	<i>91.3%</i>	<i>92.9%</i>
Capital Expenditure	-63645	-52729	-65205	-70129	-73680
<i>% of revenues</i>	<i>12.4%</i>	<i>9.2%</i>	<i>10.3%</i>	<i>9.9%</i>	<i>9.4%</i>
Other Investment Cash Flow items	101246	102562	102583	102070	101151
<b>Cash Flow after Investments</b>	<b>37601</b>	<b>49833</b>	<b>37377</b>	<b>31940</b>	<b>27471</b>
<b>Free Cash Flow</b>	<b>-16893</b>	<b>32217</b>	<b>56666</b>	<b>74316</b>	<b>99004</b>

- \* In terms of the cash flows, we expect Amazon to generate around \$121.87 billion in operating cash flows in 2024.
- \* This implies an EBITDA-to-Operating-Cash-Flow conversion ratio of 89.25%
- \* Amazon is expected to invest a higher amount in capex and other investing activities in 2024.
- \* Overall, the company is expected to generate free cash flows to the tune of \$56.67 billion in 2024.

## Forecasted Operating Cash Flows & EBITDA-to-OCF Conversion %



\* We can see the evolution of the operating cash flows and the conversion of EBITDA into operating cash in the above chart. We can also see the margin assumption summary and other elements in the tables below.

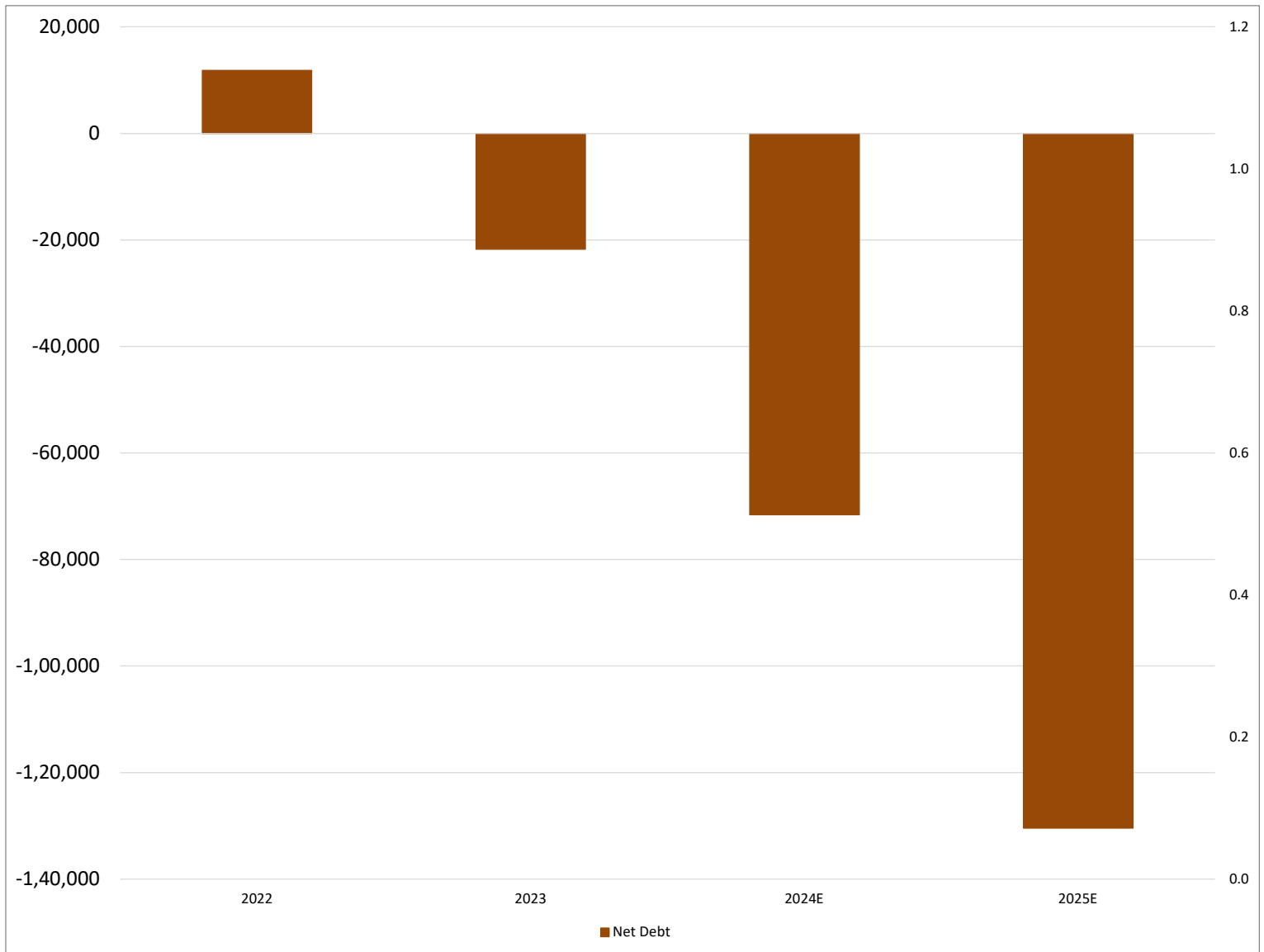
### Key Ratios

Growth & Margins	2022	2023	2024E	2025E	2026E
Sales Growth	9.4%	11.8%	10.6%	11.0%	10.6%
EBITDA Margin	10.8%	14.9%	21.5%	22.4%	23.8%
EBIT Margin	2.6%	6.4%	9.7%	10.8%	12.2%
Net Profit Margin	-0.5%	5.3%	7.9%	8.9%	10.0%

<b>Leverage Ratios</b>	<b>2022</b>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
Net Debt	11,824	-21,719	-71,612	-1,30,459	-1,88,285
Net Debt/ Equity	0.1	-0.1			
Net Debt/ EBITDA	0.2	NA	NA	NA	NA

- ⊙ Amazon's Net Debt is expected to decrease in 2024 and is expected to follow a similar trend over the coming years.
- ⊙ The Net Debt-to-EBITDA ratio is a measure of leverage, calculated as a company's interest-bearing liabilities minus cash or cash equivalents, divided by its EBITDA. It shows how many years it would take for a company to pay back its debt if net debt and EBITDA are held constant.
- ⊙ Amazon's Net Debt-to-EBITDA ratio is expected to be NA in 2024 which indicates that the company is over-leveraged.
- ⊙ Net-Debt-to-Equity ratio, also known as the gearing ratio shows how encumbered a company is with its debt.
- ⊙ The company's Net Debt-to-Equity ratio for 2023 is -0.11 and it indicates that the company has no gearing.

## Evolution of Net Debt Levels



## Discounted Cash Flow Valuation With A Scenario Analysis

- Baptista Research looks to provide a comprehensive discounted cash flow (DCF) valuation for Amazon coupled with a detailed sensitivity analysis for key assumptions in three main scenarios - a base case scenario, a bull case scenario, and a bear case scenario.
- Based on our analysis, we have provided a target price for the company's stock for the next three years, in each of the 3 scenarios, offering investors a forward-looking assessment of the company's potential market value. However, the Base Case scenario is the most realistic scenario in our view and that is how the main target price in this report is determined.

### Base Case Scenario

#### Key DCF Assumptions

WACC	11.1%
CoD	3.6%
CoE	11.0%
Market Rate	6.0%
Risk Free Rate	4.1%
Beta	1.15
Perpetual Growth Rate (g)	7.6%
Terminal Value	2821942
Tax Rate	19.0%

- For the purpose of carrying out the discounted cash flow valuation of Amazon, we have used the standard capital asset pricing model (CAPM).
- We have used a 6.0% equity market risk premium based on the S&P 500 returns for the past 5 years.
- The risk-free rate has been assumed as the 10-year Treasury Constant Maturity Rate of the U.S. at 4.10%.
- The company's stock is more volatile than the market as a whole and has a beta of 1.2 which we shall use without leveraging the same as we are going for the enterprise value approach.
- This is used in order to arrive at the cost of equity (CoE) of 11.0% which appears reasonable for a company like Amazon.
- Based on the company's long term debt and interest payments, the cost of debt is 3.6%.



- After incorporating the CoE and the CoD and average tax rate of 19.0%, we arrive at a Weighted Average Cost of Capital (WACC) of 11.1%.
- The terminal value is a key component of any DCF valuation as it accounts for the largest chunk of the total projected value of the company. There are a number of methodologies used to determine the same such as the perpetual growth rate method or the multiples method.
- In this case, we have gone ahead and determined the terminal value by applying the current EV/Sales ratio of 3.6 to our forecasted revenues of 2026 which has resulted in an assumed perpetual growth rate of 7.59%.
- It is important to note that the Perpetual Growth rate and the EV/ Sales ratio (along with the other resultant valuation ratios) are the key differentiators between the Base Case, the Bull Case, & the Bear Case scenarios.

EV and Market Cap	Current	2024E	2025E	2026E
Price (\$)	165.80	217.8	227.6	289.4
Outstanding Number of shares (million)	10496	10496	10496	10496
Total Market Cap (billion)	1740.17	2285.94	2389.07	3036.96
Net Debt	-21719	-71612	-130459	-188285
Enterprise Value (billion)	1718.45	2214.32	2258.61	2848.68

- After applying the discount rate (WACC) of 11.1%, we arrive at a price target of \$217.8 for 2024.
- Our target price at the end of 2025 is \$227.6 and for 2026 is \$289.4 which implies a total appreciation of nearly 74.5% in the coming 3 years in the stock price.

Valuation Ratios	Current	2024E	2025E	2026E
EV/ Sales	3.0	3.5	3.2	3.6
EV/ EBITDA	20.1	16.2	14.3	15.3
EV/ EBIT	46.6	35.8	36.5	37.2
Price/Earnings	57.2	45.5	38.0	38.9

- During this phase, we see the EV/ EBITDA to be in the range of 14.28 and 16.22
- The EV/ EBIT will be in the range of 35.76 to 37.20 over the coming 3 years.

- As a part of the comparables analysis for the sake of valuation, we are looking to establish a peer group consisting of similar companies in the same industry and compare their valuation multiples with those of Amazon.

## Bull Case Scenario

### Key DCF Assumptions

WACC	11.1%
CoD	3.6%
CoE	11.0%
Market Rate	6.0%
Risk Free Rate	4.1%
Beta	1.15
Perpetual Growth Rate (g)	8.1%
Terminal Value	3261652
Tax Rate	19.0%

- For the purpose of carrying out the discounted cash flow valuation of Amazon, we have used the standard capital asset pricing model (CAPM).
- We have used a 6.0% equity market risk premium based on the S&P 500 returns for the past 5 years.
- The risk-free rate has been assumed as the 10-year Treasury Constant Maturity Rate of the U.S. at 4.10%.
- The company's stock is more volatile than the market as a whole and has a beta of 1.2 which we shall use without leveraging the same as we are going for the enterprise value approach.
- This is used in order to arrive at the cost of equity (CoE) of 11.0% which appears reasonable for a company like Amazon.
- Based on the company's long term debt and interest payments, the cost of debt is 3.6%.
- After incorporating the CoE and the CoD and average tax rate of 19.0%, we arrive at a Weighted Average Cost of Capital (WACC) of 11.1%.

- The terminal value is a key component of any DCF valuation as it accounts for the largest chunk of the total projected value of the company. There are a number of methodologies used to determine the same such as the perpetual growth rate method or the multiples method.
- In this case, we have gone ahead and determined the terminal value by applying the current EV/Sales ratio of 4.2 to our forecasted revenues of 2026 which has resulted in an assumed perpetual growth rate of 8.06%.
- It is important to note that the Perpetual Growth rate and the EV/ Sales ratio (along with the other resultant valuation ratios) are the key differentiators between the Base Case, the Bull Case, & the Bear Case scenarios.

EV and Market Cap	Current	2024E	2025E	2026E
Price (\$)	165.80	248.5	258.9	328.8
Outstanding Number of shares (million)	10496	10496	10496	10496
Total Market Cap (billion)	1740.17	2608.04	2717.62	3451.35
Net Debt	-21719	-71612	-130459	-188285
Enterprise Value (billion)	1718.45	2536.43	2587.16	3263.06

- After applying the discount rate (WACC) of 11.1%, we arrive at a price target of \$248.5 for 2024.
- Our target price at the end of 2025 is \$227.6 and for 2026 is \$289.4 which implies a total appreciation of nearly 74.5% in the coming 3 years in the stock price.

Valuation Ratios	Current	2024E	2025E	2026E
EV/ Sales	3.0	4.0	3.7	4.2
EV/ EBITDA	20.1	18.6	16.4	17.6
EV/ EBIT	46.6	41.0	41.8	42.6
Price/Earnings	57.2	51.9	43.3	44.2

- During this phase, we see the EV/ EBITDA to be in the range of 14.28 and 16.22

- The EV/ EBIT will be in the range of 35.76 to 37.20 over the coming 3 years.

## Bear Case Scenario

### Key DCF Assumptions

WACC	11.1%
CoD	3.6%
CoE	11.0%
Market Rate	6.0%
Risk Free Rate	4.1%
Beta	1.15
Perpetual Growth Rate (g)	6.8%
Terminal Value	2306153
Tax Rate	19.0%

- For the purpose of carrying out the discounted cash flow valuation of Amazon, we have used the standard capital asset pricing model (CAPM).
- We have used a 6.0% equity market risk premium based on the S&P 500 returns for the past 5 years.
- The risk-free rate has been assumed as the 10-year Treasury Constant Maturity Rate of the U.S. at 4.10%.
- The company's stock is more volatile than the market as a whole and has a beta of 1.2 which we shall use without leveraging the same as we are going for the enterprise value approach.
- This is used in order to arrive at the cost of equity (CoE) of 11.0% which appears reasonable for a company like Amazon.
- Based on the company's long term debt and interest payments, the cost of debt is 3.6%.
- After incorporating the CoE and the CoD and average tax rate of 19.0%, we arrive at a Weighted Average Cost of Capital (WACC) of 11.1%.

- The terminal value is a key component of any DCF valuation as it accounts for the largest chunk of the total projected value of the company. There are a number of methodologies used to determine the same such as the perpetual growth rate method or the multiples method.
- In this case, we have gone ahead and determined the terminal value by applying the current EV/Sales ratio of 2.7 to our forecasted revenues of 2026 which has resulted in an assumed perpetual growth rate of 6.80%.
- It is important to note that the Perpetual Growth rate and the EV/ Sales ratio (along with the other resultant valuation ratios) are the key differentiators between the Base Case, the Bull Case, & the Bear Case scenarios.

EV and Market Cap	Current	2024E	2025E	2026E
Price (\$)	165.80	181.8	209.3	218.8
Outstanding Number of shares (million)	10496	10496	10496	10496
Total Market Cap (billion)	1740.17	1908.09	2196.93	2296.09
Net Debt	-21719	-71612	-130459	-188285
Enterprise Value (billion)	1718.45	1836.48	2066.47	2107.80

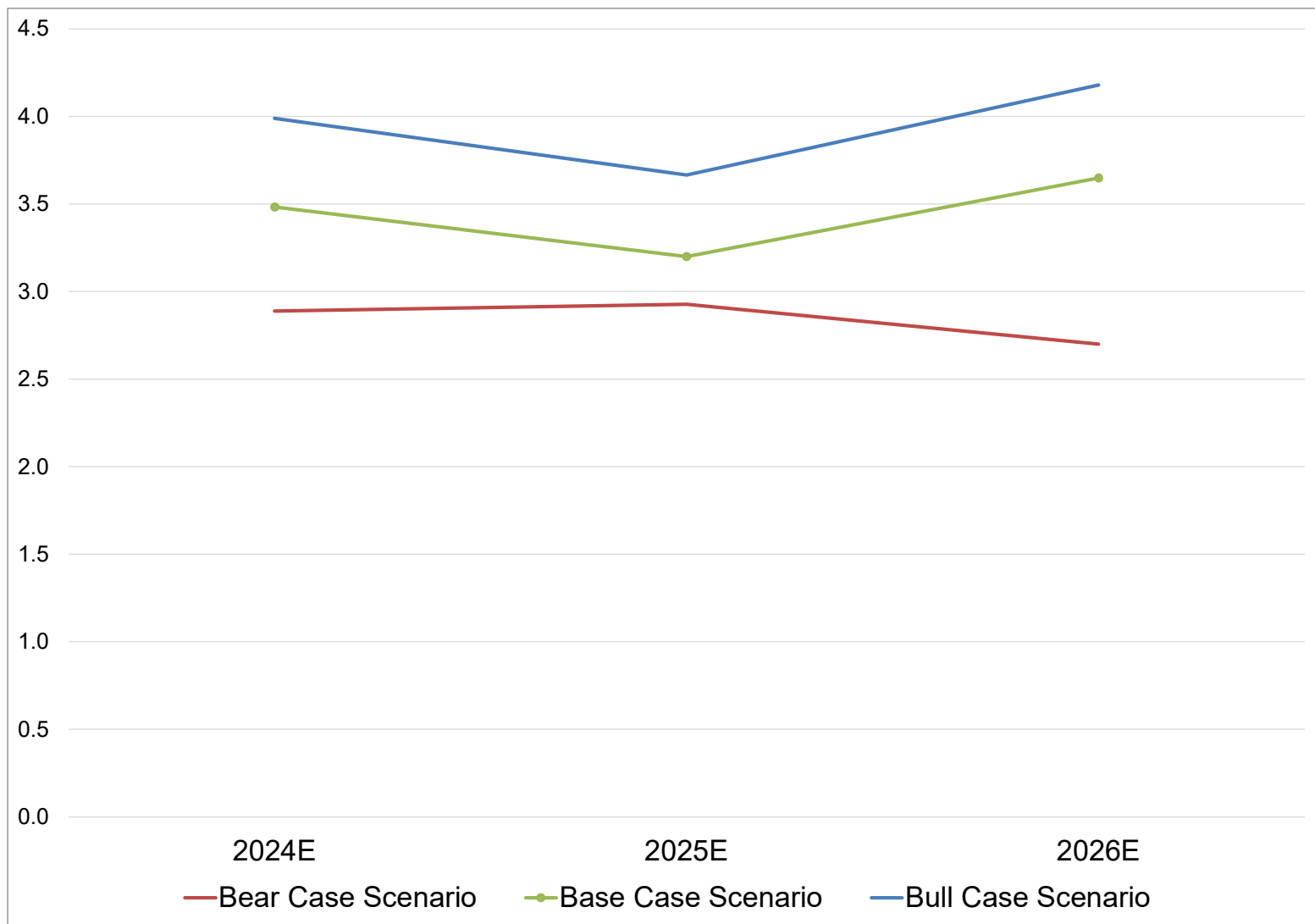
- After applying the discount rate (WACC) of 11.1%, we arrive at a price target of \$181.8 for 2024.
- Our target price at the end of 2025 is \$227.6 and for 2026 is \$289.4 which implies a total appreciation of nearly 74.5% in the coming 3 years in the stock price.

Valuation Ratios	Current	2024E	2025E	2026E
EV/ Sales	3.0	2.9	2.9	2.7
EV/ EBITDA	20.1	13.4	13.1	11.3
EV/ EBIT	46.6	29.7	27.0	27.5
Price/Earnings	57.2	37.9	35.0	29.4

- During this phase, we see the EV/ EBITDA to be in the range of 14.28 and 16.22

- The EV/ EBIT will be in the range of 35.76 to 37.20 over the coming 3 years.

## Comparitive Analysis Of EV/ Sales In The Bull Case, Bear Case & Base Case Scenarios



- We can see a brief summary of the different assumptions in each of the 3 scenarios and the different target prices in the table below:

## Scenario Analysis Summary For 2024

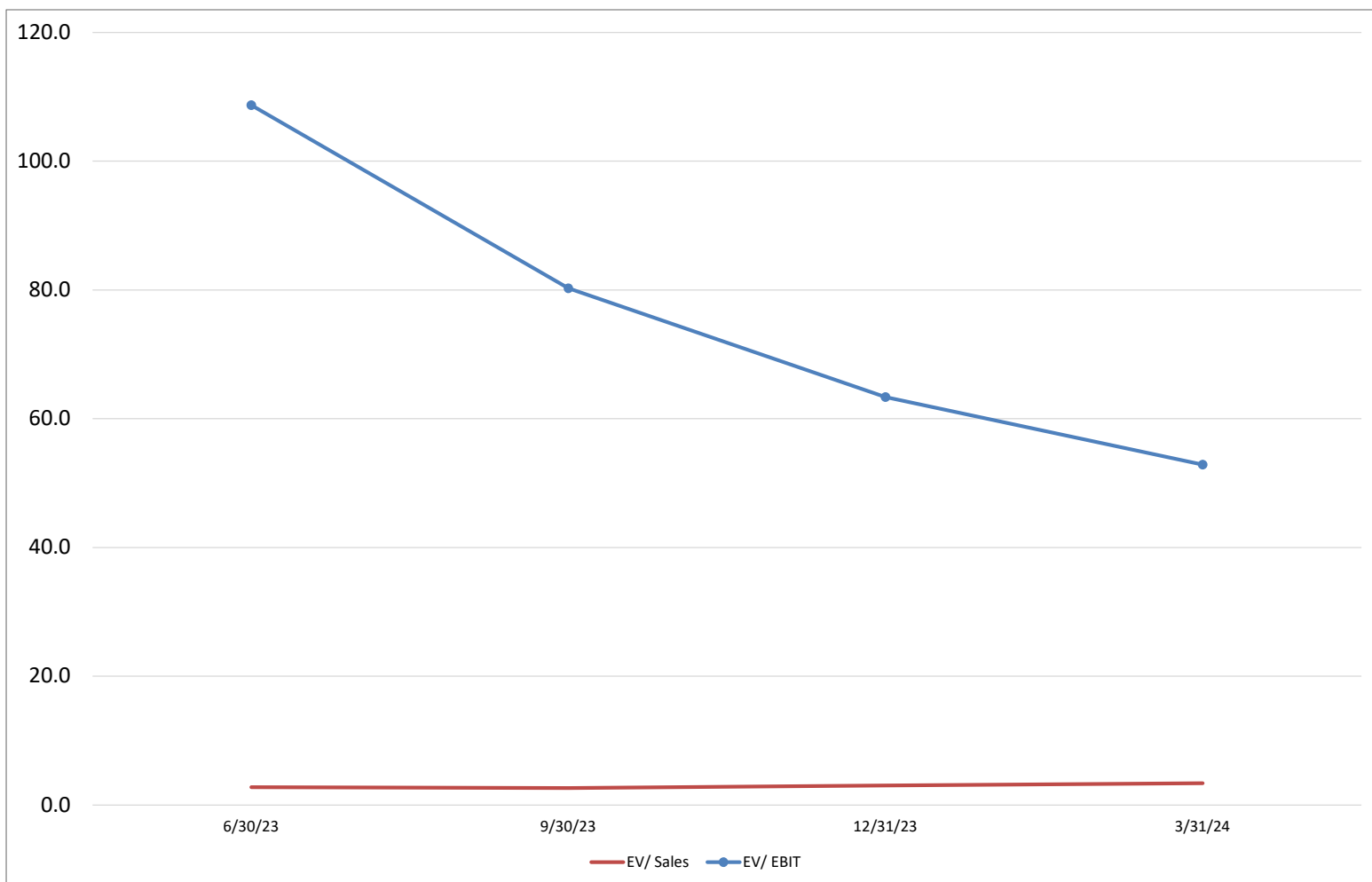
Particulars	Bull Case	Base Case	Bear Case
Target Price - 2024	248.5	<b>217.8</b>	181.8
EV/ Sales	4.0	<b>3.5</b>	2.9
EV/ EBITDA	18.6	<b>16.2</b>	13.4
EV/ EBIT	41.0	<b>35.8</b>	29.7
Price/Earnings	51.9	<b>45.5</b>	37.9
Perpetual Growth Rate (g)	8.1%	<b>7.6%</b>	6.8%
Terminal Value	3261652	<b>2821942</b>	2306153

## Evolution Of Key Valuation Multiples - Quarter-on-Quarter Data

Valuation Ratios	6/30/23	9/30/23	12/31/23	3/31/24
EV/ Sales	2.8	2.6	3.0	3.4
EV/ Gross Profit	6.2	5.8	6.5	7.2
EV/ EBITDA	25.4	22.4	22.6	22.8
EV/ EBIT	108.7	80.3	63.4	52.9
Price/ Book Value	8.7	7.8	8.6	9.3
EV / Unlevered Free Cash Flow	35.1	27.5	27.5	29.2
Market Cap / Levered Free Cash Flow	33.8	26.3	26.7	28.9

- The valuation multiples of any company are a measure of the market perception of its value. In isolation, those numbers may mean very little but when compared to other industry peers/ the historical values, we can see the evolution of the market perception of a company's value.
- First, let us take a closer look at the evolution of Amazon's valuation multiples over the past 4 quarters before moving on to the year-on-year evolution.
- In the above table as well as the below chart, we see Amazon's EV/ Sales multiple rising, indicating an improvement in market perception of the company's stock.
- We also see the company's EV/ EBIT evolving from 80.26 to 52.87 over the past 3 quarters.
- Amazon's Price to Book ratio has increased from 8.65 to 9.28 over the past four quarters.

## Evolution Of EV/ Sales & EV/ EBIT Valuation Multiples - Quarter-on-Quarter Performance



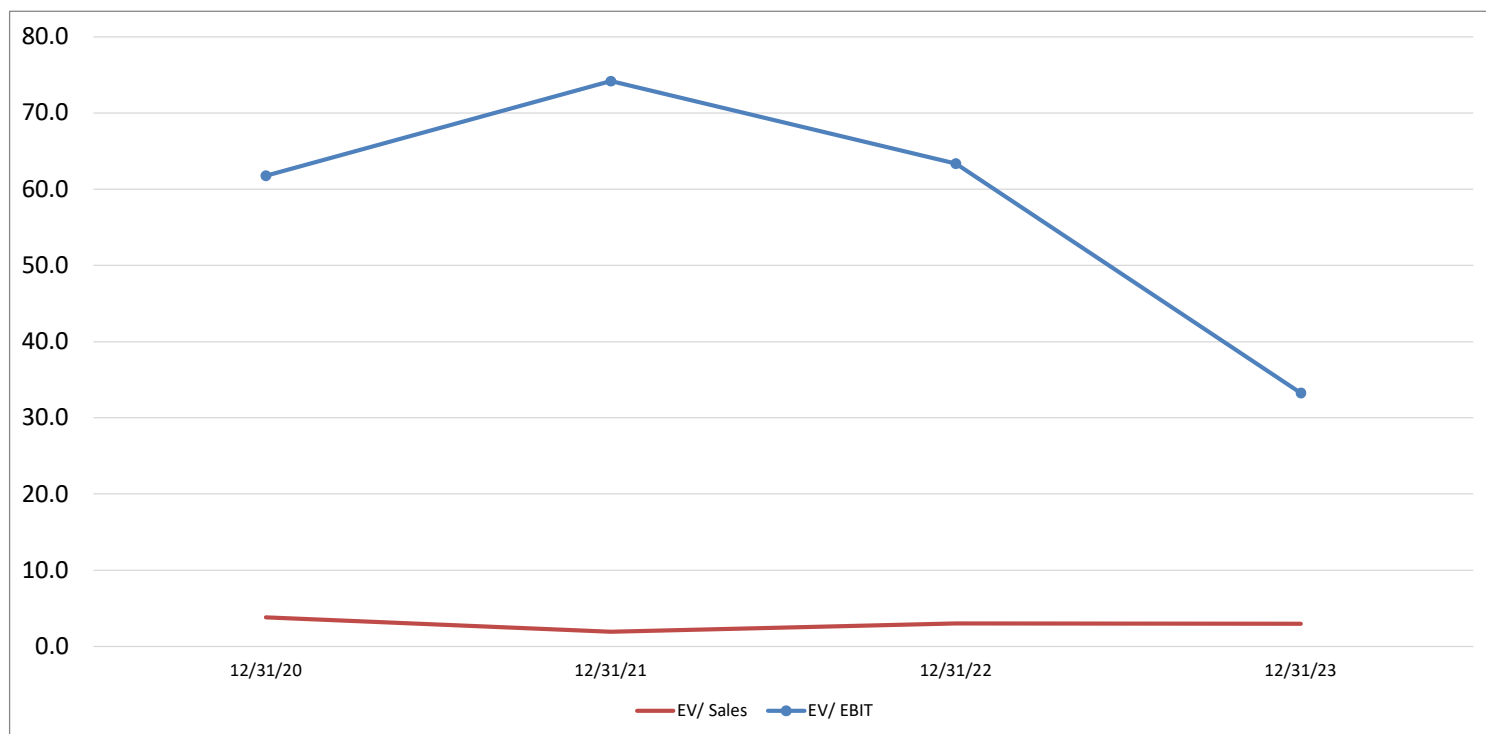


## Evolution Of Key Valuation Multiples - Year-on-Year Data

Valuation Ratios	12/31/20	12/31/21	12/31/22	12/31/23
EV/ Sales	3.8	1.9	3.0	3.0
EV/ Gross Profit	9.2	4.5	6.5	6.2
EV/ EBITDA	28.9	18.7	22.6	17.4
EV/ EBIT	61.8	74.2	63.4	33.3
Price/ Book Value	14.0	6.2	8.6	7.4
EV / Unlevered Free Cash Flow	65.0	53.4	27.5	22.9
Market Cap / Levered Free Cash Flow	65.5	51.3	26.7	22.6

- Now, let us move on to look at the year-on-year evolution of Amazon's valuation multiples.
- If we focus on the most fundamental valuation multiple i.e., the EV/ Sales, we see that it has decreased from 3.02 to 2.99 over the past year.
- Over a 4-year horizon, we see that Amazon's EV/ Sales has fallen from 3.82 to 2.99 which is an interesting development.
- On the other hand, the company's EV/ EBITDA has evolved from 22.62 to 17.39 over the past year which means that its market perception has worsened.
- Amazon's Price to Book ratio has evolved from 6.23 to 7.36 over the past 3 years which is a definite improvement in the market perception of the company.

## Evolution Of EV/ Sales & EV/ EBIT Valuation Multiples - Year-on-Year Performance



## Valuation Multiples Of Comparables

Comparable Name	Forward EV/ Revenue	Forward EV/ EBITDA	Forward P/E	Forward Market Cap/ FCF
Amazon.com, Inc.	3.48x	16.22x	45.46x	40.34x
PDD Holdings Inc.	2.48x	8.10x	11.02x	8.20x
Alibaba Group Holding Limited	1.10x	5.93x	9.50x	9.17x
MercadoLibre, Inc.	4.24x	23.45x	47.87x	37.52x
Prosus N.V.	13.36x	280.84x	12.60x	65.64x

eBay Inc.	2.93x	9.29x	11.18x	11.46x
Microsoft Corporation	10.90x	20.61x	30.81x	38.96x
Oracle Corporation	7.74x	14.89x	21.08x	41.18x
Salesforce, Inc.	6.23x	17.01x	25.13x	21.11x
SAP SE	6.13x	22.27x	35.85x	50.62x

Median	6.13x	15.95x	18.66x	29.32x
Mean	6.12x	40.56x	22.13x	29.58x
Max	13.36x	280.84x	47.87x	65.64x
Min	1.10x	3.18x	9.50x	8.20x

- As we can see in the above table, the forward EV/ Revenue multiple of Amazon is above that of the industry median.
- We also see that the industry mean of Amazon is less than the forward EV/ Revenue multiple of the company.
- As compared to the peer group, we can say that the company is leaning towards being overvalued.

## Other Major Risks

It is important to highlight the key risks associated with an investment in Amazon as well as the inherent risks associated with the financial projections and price forecasts presented in this report.

Global economic, political and other conditions may adversely affect trends in consumer, business and government spending, which may adversely impact the demand for the company's services and its revenue and profitability.

Amazon operates in highly competitive markets for its products and services. Competitive risk is the risk of losing market share, customers or revenues to competitors who may offer more attractive products, prices, services or distribution channels. Competitive risk can also arise from new entrants or disruptive innovations that could challenge Amazon's business model or value proposition.

Amazon operates in highly regulated jurisdictions, where it is subject to various laws, rules and regulations that govern its products, services, operations and capital requirements. Regulatory risk is the risk of changes in the regulatory environment that could adversely affect Amazon's business, financial condition and results of operations. For example, changes in tax laws, data privacy laws, environmental laws, consumer protection laws or antitrust laws could increase its costs, liabilities, compliance burdens or competitive pressures.

Amazon invests heavily in research and development to create new products and services that meet the evolving needs and preferences of its customers. Innovation risk is the risk of failing to innovate effectively or efficiently that could affect its growth potential or competitive advantage. For example, Amazon could face challenges such as technological obsolescence, customer dissatisfaction, market saturation or intellectual property infringement due to factors such as changing customer demands, emerging technologies, shifting industry trends or aggressive competition.

Amazon often has a high valuation compared to its peers and the market. High valuation is the risk of a downward adjustment in its stock price due to factors such as earnings misses, growth slowdowns, margin compressions or market corrections. For example, Amazon could face a lower valuation due to factors such as lower-than-expected earnings growth, higher-than-expected expenses or taxes, lower-than-expected margins or returns on capital or higher-than-expected discount rates.

Amazon is exposed to various legal claims and disputes arising from its business activities or transactions. Legal risk is the risk of litigation that could result in significant costs, liabilities or penalties for the company or its affiliates.

Amazon relies on various systems, processes, people and third parties to support its business operations and customer service. It faces the risk of cyberattacks, data breaches, fraud or system failures that could compromise its data security, business continuity or customer satisfaction. The company also faces the risk of reputational damage or regulatory actions that could result from cyber incidents.

Amazon pursues an active acquisition strategy to expand its geographic presence, product offerings and customer base. The company faces the risk of integration challenges, goodwill impairments, contingent liabilities or unexpected costs associated with its acquisitions. The company also faces the risk of failing to achieve the expected synergies, benefits or returns from its acquisitions.

With respect to our price projection, we would like to clarify that the valuation of Amazon in this report is specific to the date of the analysis i.e. 10-08-2024.

We must emphasize that the projected valuation and the share price of Amazon are dependent on the realization of the revenue growth, free cash flows and the other assumptions taken into account. Our analysis cannot be directed to providing any assurance about the achievability of these financial forecasts.

There is a possibility that the actual results of the company are different from the projected results as a result of unexpected events and circumstances such as the realization of the threats mentioned in the paragraph above. Lastly, we would like to clarify that we had no interaction with the management of the company and they did not comment on the achievability or the reasonableness of the assumptions underlying the financial forecasts. Please check out our detailed disclosures at the end for further details.

## Environment, Social and Governance (ESG) Risk Ratings

The assessment of ESG (Environmental, Social & Governance) risks by Baptista Research includes a wide range of considerations that pertain to the long-term sustainability of a company. We keep our evaluation focused on updates with the potential to have a material impact on a company's financial performance. Environmental and social risks tend to be both sector-related as well as company-specific and could be driven by external factors such as regulations or demographic changes. On the other hand, we believe that governance risks are largely entity-driven. Often, if the ESG risks are material and yet remain unmitigated, they result in a lower price target.

<b>Environmental Risk Score</b>	<b>6.0</b>
<b>Social Risk Score</b>	<b>15.4</b>
<b>Governance Risk Score</b>	<b>9.2</b>
<b>Total ESG Risk Score</b>	<b>30.6</b>

We use the ESG Risk Ratings Score provided by Sustainalytics, Inc. The final ESG Risk Rating score is measured on a scale of 0-100 with a higher score implying a higher ESG risk. Sustainalytics assesses the degree to which a company's enterprise business is affected by ESG issues.

The rating uses a two-dimensional framework that combines an assessment of the company's industry-specific material ESG issues and an evaluation of the manner in which the company is handling those issues. The higher the level of unmanaged risk, the higher the above-mentioned score.

As per this measure, Amazon has an Environment Risk score of 6.0, a Social Risk score of 15.4, and a Governance Risk score of 9.2 totalling to an ESG Risk score of 30.6.

The company lies on the 71st percentile implying a High ESG Risk.

We also evaluate the ESG Controversy level of Amazon as per Sustainalytics data, measured on a scale of 1 to 5 (5 being the most controversial).

Amazon's Controversy Level score is 3 which is considered as a Significant Controversy Level as it is well above its industry average.

## **Analyst Ratings**

**Buy:** Expected to outperform market over next 6 to 12 months. Minimal risk to fundamentals and valuation. Good long-term investment.

**Outperform:** Expected to outperform the market over next 6 to 12 months but there is a moderate risk to fundamentals and valuation.

**Sell:** Expected to significantly underperform the market over next 6 to 12 months. There is a strong likelihood of the security delivering negative returns and a very high risk to fundamentals and valuation.

**Underperform:** Expected to underperform the market over next 6 to 12. There is a moderate to high risk to fundamentals and valuation.

**Hold:** Expected to perform in line with the market over next 6 to 12 months. However, there is a moderate to high risk to fundamentals and valuation.

## **Analyst Industry Views**

**Attractive:** The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

**In-Line:** The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

**Cautious:** The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America – MSCI Emerging Markets Latin America; Europe – MSCI Europe; Japan - TOPIX; Asia - relevant country index or sub-regional index. Please contact us to know the relevant index in case it is not specified in the report.



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