

# Amazon.com Inc

**S&P Recommendation** **HOLD** ★★☆☆☆

**Price**  
\$223.61 (as of Sep 23, 2011)

**12-Mo. Target Price**  
\$250.00

**Investment Style**  
Large-Cap Growth

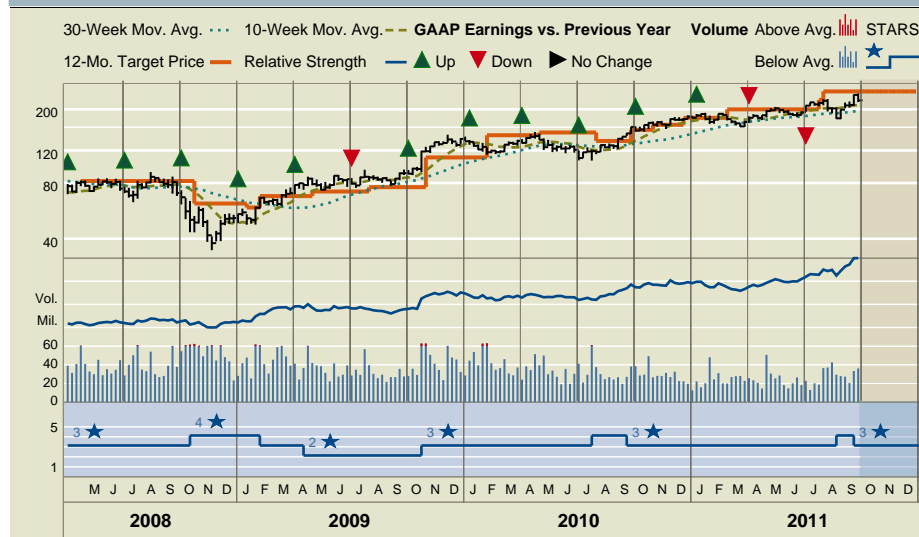
**GICS Sector** Consumer Discretionary  
**Sub-Industry** Internet Retail

**Summary** This leading online retailer sells a broad range of items from books to consumer electronics to home and garden products.

**Key Stock Statistics** (Source S&P, Vickers, company reports)

52-Wk Range	<b>\$244.00– 151.40</b>	S&P Oper. EPS 2011 E	<b>2.17</b>	Market Capitalization(B)	<b>\$101.504</b>	Beta	<b>1.16</b>
Trailing 12-Month EPS	<b>\$2.27</b>	S&P Oper. EPS 2012 E	<b>3.79</b>	Yield (%)	<b>Nil</b>	S&P 3-Yr. Proj. EPS CAGR(%)	<b>30</b>
Trailing 12-Month P/E	<b>98.5</b>	P/E on S&P Oper. EPS 2011 E	<b>NM</b>	Dividend Rate/Share	<b>Nil</b>	S&P Credit Rating	<b>A</b>
\$10K Invested 5 Yrs Ago	<b>\$72,506</b>	Common Shares Outstg. (M)	<b>453.9</b>	Institutional Ownership (%)	<b>68</b>		

**Price Performance**



Options: ASE, CBOE, P, Ph

Analysis prepared by Equity Analyst **Michael Souers** on Sep 19, 2011, when the stock traded at **\$237.66**.

**Highlights**

- ▶ We look for net sales to rise 41% in 2011, following a 40% advance in 2010. We expect this growth to be driven by market share gains from traditional retailers, international expansion, increased digital content and an increase in third-party sellers. Amazon Prime continues to drive increased sales results and build customer loyalty both domestically and abroad. In our view, AMZN's relentless focus on providing value to consumers through selection and price will allow the company to continue to gain notable market share.
- ▶ In 2011, we expect gross margins to narrow slightly on product mix shift and competitive pressures, partially offset by an increase in third-party sales. We look for operating margins to narrow significantly, given our view of substantial investments in fulfillment, marketing and technology infrastructure.
- ▶ After slightly higher net interest income, an effective tax rate of 25.4%, and a flat diluted share count, we project 2011 EPS of \$2.17, a 14% decline from the \$2.53 the company earned in 2010. We see EPS of \$3.79 in 2012.

**Investment Rationale/Risk**

- ▶ AMZN continues to demonstrate the strength and worldwide potential of its business model, in our view. Continued investments in long-term growth opportunities such as Amazon Prime, digital content and seller platforms should provide new sources of revenue over the next few years. Long term, we expect AMZN's initiatives to result in continued strong sales results and significant margin expansion, as it leverages its leading brand name and position as an Internet retailer. We consider AMZN a best-in-class retailer that generates significant free cash flow. Despite these positives, we think the shares, following a recent 30% increase in price, are now fairly valued trading at over 60X our 2012 EPS estimate.
- ▶ Risks to our opinion and target price include a double-dip recession, the potential for lower-than-projected revenues should growth initiatives fail to live up to their potential, and unfavorable currency impacts.
- ▶ Our 12-month target price of \$250 is based on our discounted cash flow analysis, which assumes a weighted average cost of capital of 10.8% and a terminal growth rate of 4%.

**Qualitative Risk Assessment**

**LOW** **MEDIUM** **HIGH**

Our risk assessment reflects AMZN's large market capitalization and leading position in the e-commerce industry, offset by increasing competition.

**Quantitative Evaluations**

**S&P Quality Ranking** **B-**

D C **B-** B B+ A- A A+

**Relative Strength Rank** **STRONG**

95

LOWEST = 1 HIGHEST = 99

**Revenue/Earnings Data**

<b>Revenue (Million \$)</b>					
	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>Year</b>
2011	9,857	9,913	--	--	--
2010	7,131	6,566	7,560	12,948	34,204
2009	4,889	4,651	5,449	9,519	24,509
2008	4,135	4,063	4,264	6,704	19,166
2007	3,015	2,886	3,262	5,673	14,835
2006	2,279	2,139	2,307	3,986	10,711

<b>Earnings Per Share (\$)</b>					
	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>Year</b>
2011	0.44	0.41	<b>E0.30</b>	<b>E1.02</b>	<b>E2.17</b>
2010	0.66	0.45	0.51	0.91	2.53
2009	0.41	0.32	0.45	0.85	2.04
2008	0.34	0.37	0.27	0.52	1.49
2007	0.26	0.19	0.19	0.49	1.12
2006	0.12	0.05	0.05	0.23	0.45

Fiscal year ended Dec. 31. Next earnings report expected: Late October. EPS Estimates based on S&P Operating Earnings; historical GAAP earnings are as reported.

**Dividend Data**

No cash dividends have been paid.

**Amazon.com Inc****Business Summary** September 19, 2011

**CORPORATE OVERVIEW.** Since opening for business as "Earth's Biggest Bookstore" in July 1995, Amazon.com has expanded into a number of other product categories, including: apparel, shoes and jewelry; electronics and computers; movies, music and games; toys, kids and baby; sports and outdoors; home and garden; tools, auto and industrial; grocery; health and beauty; and digital downloads.

AMZN has virtually unlimited online shelf space, and can offer customers a vast selection of products through an efficient search and retrieval interface. The company personalizes shopping by recommending items which, based on previous purchases, are likely to interest a particular customer. Key Web site features also include editorial and customer reviews, manufacturer product information, secure payment systems, wedding and baby registries, customer wish lists, and the ability to view selected interior pages and search the entire contents of many books.

The company operates the following retail Web sites: www.amazon.com (U.S.), www.amazon.co.uk (U.K.), www.amazon.de (Germany), www.amazon.fr (France), www.amazon.co.jp (Japan), www.amazon.ca (Canada), www.amazon.cn (China), www.joyo.cn, www.shopbop.com, www.endless.com, and www.zappos.com. Amazon also designs, manufactures and sells a wireless e-reading device, the Amazon Kindle. It focuses first and foremost on the customer experience by offering a wide selection of merchandise, low prices and convenience.

In addition to being the seller of record for a broad range of new products, AMZN allows other businesses and individuals to sell new, used and collectible products on its Web sites through its Merchant and Amazon Marketplace programs. The company earns fixed fees, sales commissions, and/or per-unit activity fees under these programs. AMZN also serves developers and enterprises of all sizes through Amazon Web Services, which provides access to technology infrastructure that developers can use to enable virtually any type of business.

Starting in 2003, the company began reporting results for two core segments: North America (55% of 2010 net sales) and International (45%). In 2010, media products accounted for 44% of net sales, electronics and other general merchandise for 54%, and other 3%.

**PRIMARY BUSINESS DYNAMICS.** Amazon's business is highly capital-intensive in terms of spending on technology and content, as the company had nearly \$1 billion in capital expenditures in 2010. As a result, barriers to entry do exist. However, AMZN faces intense price competition from bricks and mortar retailers as well as other Internet retailers. Other challenges and weaknesses inherent in Amazon's business model include low switching costs for consumers when shopping online, and search engines that simplify and enable comparison shopping.

Strengths of the company, in our view, include: first-mover advantage and strong brand name recognition; the breadth and depth of the company's product lines; a user feedback feature that we believe helps to build trust and increase customer loyalty; what we see as a strong balance sheet, with nearly \$8.7 billion in cash and marketable securities and no long-term debt; and efficient deployment of capital on technology to help promote a fast, user-friendly shopping experience.

We believe the size of the market represents an opportunity for AMZN. In 2010, only about 8% of total U.S. retail sales were estimated to be e-commerce transactions, totaling \$176 billion. Forrester Research anticipates that figure will rise to 11% by 2015, to \$279 billion. Another opportunity is the growing use of the Internet internationally, with penetration rates at 27% at the end of 2009, according to Internet World Stats. This compares to 76% penetration in the U.S., and, in our view, demonstrates the strong potential for increased Internet usage and e-commerce sales abroad.

**FINANCIAL TRENDS.** From 2007 to 2010, Amazon.com generated a three-year compound annual growth rate (CAGR) in sales of 32%, slightly above the S&P Internet Retail sub-industry average of 29%. We attribute this growth largely to global expansion and product category growth.

Amazon's return on invested capital (ROIC) has fluctuated dramatically over the years, but decreased to 14.5% in 2010 from 16.1% in 2009. This compares with the S&P Internet Retail sub-industry average of 15.7% and the S&P Consumer Discretionary sector average of 10.9%. We expect AMZN's ROIC to decline slightly in 2011, on an expected narrowing of operating margins.

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J.P. Bezos

**SVP, Secy & General Counsel**

L.M. Wilson

**COO**

M.A. Onetto

**Chief Acctg Officer & Cntrl**

S.L. Reynolds

**SVP & CFO**

T.J. Szkutak

**Board Members**

T. A. Alberg

J. P. Bezos

J. S. Brown

W. B. Gordon

B. G. Krikorian

A. Monie

J. J. Rubinstein

T. O. Ryder

P. Stonesifer

**Domicile**

Delaware

**Founded**

1994

**Employees**

33,700

**Stockholders**

3,383

# Amazon.com Inc

## Quantitative Evaluations

<b>S&amp;P Fair Value Rank</b>	1-	<b>1</b>	2	3	4	5
		LOWEST				HIGHEST

Based on S&P's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).

<b>Fair Value Calculation</b>	<b>\$129.70</b>	Analysis of the stock's current worth, based on S&P's proprietary quantitative model suggests that AMZN is overvalued by \$93.91 or 42.0%.
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<b>Investability Quotient Percentile</b>	<b>96</b>
	LOWEST = 1 HIGHEST = 100
	AMZN scored higher than 96% of all companies for which an S&P Report is available.

<b>Volatility</b>	<b>LOW</b>	<b>AVERAGE</b>	<b>HIGH</b>
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<b>Technical Evaluation</b>	<b>BULLISH</b>	Since September, 2011, the technical indicators for AMZN have been BULLISH.
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<b>Insider Activity</b>	<b>UNFAVORABLE</b>	<b>NEUTRAL</b>	<b>FAVORABLE</b>
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## Expanded Ratio Analysis

	2010	2009	2008	2007
Price/Sales	2.40	2.43	1.16	2.65
Price/EBITDA	41.58	42.90	19.62	42.42
Price/Pretax Income	54.57	51.48	24.84	59.51
P/E Ratio	71.25	65.92	34.35	82.52
Avg. Diluted Shares Outstg (M)	456.0	442.0	432.0	424.0

Figures based on calendar year-end price

## Key Growth Rates and Averages

Past Growth Rate (%)	1 Year	3 Years	5 Years	9 Years
Sales	39.56	31.68	31.96	30.03
Net Income	27.72	34.81	37.64	NM

## Ratio Analysis (Annual Avg.)

	2010	2009	2008	2007
Net Margin (%)	3.37	3.47	3.08	2.74
% LT Debt to Capitalization	2.68	7.11	29.47	89.74
Return on Equity (%)	19.01	25.03	37.94	454.78

## Company Financials Fiscal Year Ended Dec. 31

Per Share Data (\$)	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Tangible Book Value	10.47	7.35	4.44	2.30	0.58	0.15	NM	NM	NM	NM
Cash Flow	3.77	2.51	2.28	1.76	0.93	1.07	1.56	0.27	-0.16	-0.80
Earnings	2.53	2.04	1.49	1.12	0.45	0.78	1.39	0.08	-0.40	-1.53
S&P Core Earnings	2.53	NA	1.41	1.12	0.48	0.83	1.27	0.02	-0.64	-2.49
Dividends	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Payout Ratio	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Prices:High	185.65	145.91	97.43	101.09	48.58	50.00	57.82	61.15	25.00	22.38
Prices:Low	105.80	47.63	34.68	36.30	25.76	30.60	33.00	18.55	9.03	5.51
P/E Ratio:High	73	72	65	90	NM	64	42	NM	NM	NM
P/E Ratio:Low	42	23	23	32	NM	39	24	NM	NM	NM

## Income Statement Analysis (Million \$)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Revenue	34,204	24,509	19,166	14,835	10,711	8,490	6,921	5,264	3,933	3,122
Operating Income	1,974	1,386	1,129	926	629	553	508	349	193	35.1
Depreciation	568	206	340	271	205	121	75.7	78.3	87.8	266
Interest Expense	39.0	34.0	71.0	77.0	78.0	92.0	107	130	143	139
Pretax Income	1,504	1,155	892	660	377	428	356	35.3	-150	-557
Effective Tax Rate	NA	21.9%	27.7%	27.9%	49.6%	22.2%	NM	NM	NM	NM
Net Income	1,152	902	645	476	190	333	588	35.3	-150	-557
S&P Core Earnings	1,152	NA	609	476	203	354	539	10.3	-242	-910

## Balance Sheet & Other Financial Data (Million \$)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Cash	8,762	6,366	3,727	3,112	2,019	2,000	1,779	1,395	1,301	997
Current Assets	13,747	9,797	6,157	5,164	3,373	2,929	2,539	1,821	1,616	1,208
Total Assets	18,797	13,813	8,314	6,485	4,363	3,696	3,249	2,162	1,990	1,638
Current Liabilities	10,372	7,364	4,746	3,714	2,532	1,929	1,620	1,253	1,066	921
Long Term Debt	184	109	533	1,282	1,247	1,521	1,855	1,945	2,277	2,156
Common Equity	6,864	5,257	2,672	1,197	431	246	-227	-1,036	-1,353	-1,440
Total Capital	6,864	5,388	3,205	2,479	1,678	1,767	1,628	909	924	716
Capital Expenditures	979	373	333	224	216	204	89.1	46.0	39.2	50.3
Cash Flow	1,720	1,108	985	747	395	454	664	114	-62.2	-291
Current Ratio	1.3	1.3	1.3	1.4	1.3	1.5	1.6	1.5	1.5	1.3
% Long Term Debt of Capitalization	Nil	2.0	16.6	51.7	74.3	86.1	113.9	213.9	246.3	301.1
% Net Income of Revenue	3.4	3.7	3.4	3.2	1.8	3.9	8.5	0.7	NM	NM
% Return on Assets	7.1	8.2	8.7	8.8	4.7	9.6	21.8	1.7	NM	NM
% Return on Equity	19.0	22.8	33.3	58.5	56.1	NM	NM	NM	NM	NM

Data as orig reprinted; bef. results of disc opers/spec. items. Per share data adj. for stk. divs.; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

# Amazon.com Inc

## Sub-Industry Outlook

Our fundamental outlook for the Internet retail sub-industry for the next 12 months is positive. While shipping costs (reflecting higher fuel prices and free shipping offers) and increased marketing expenses are concerns, we think growth prospects are favorable, as consumers increasingly enjoy the convenience and value that online retail provides.

Forrester Research projects that U.S. e-commerce sales will increase from \$176 billion in 2010 to \$279 billion in 2015, a compound annual growth rate (CAGR) of 9.6%. We believe that the significant growth in this category has been, and will continue to be, driven by several factors. From a macroeconomic viewpoint, personal spending remains the primary driver. Standard & Poor's notes that personal spending increased only 1.7% in 2010, but projects growth of 2.0% in 2011, driven by favorable recent tax legislation. While wage growth is expected to increase only slightly, S&P estimates the unemployment rate will average 9.1% for 2011 after averaging 9.6% in 2010. In addition, banks are slowly increasing their lending, which should provide an additional tailwind to spending in the near term. From an industry perspective, we think online merchants often offer a strong combination of convenience, selection, information and value compared to off-line competitors.

Consumers can use the Internet to quickly find and conduct research about items at attractive prices. Some Internet purchases do not require the payment of state and local sales taxes, although that may soon change based on potential new legislation. Also, we believe advancements in technology have made e-commerce transactions easier to complete and more reliable and secure. But while these factors are effectively driving sales, we think heavy investment spending on technology and fulfillment remain limiting factors to earnings

growth.

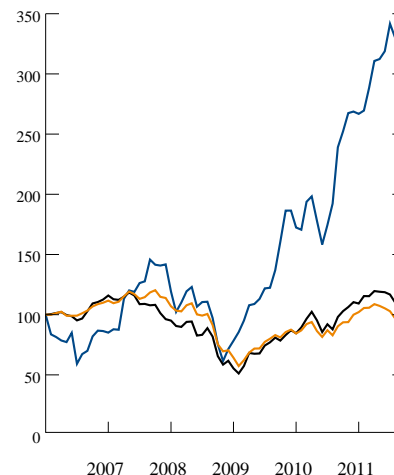
Year to date through August 19, the S&P Internet Retail Index increased 2.9%, outperforming the 11.0% decline in the S&P 1500 Index. In 2010, the sub-industry index outperformed by a wide margin, increasing 44.1%, compared to a 14.2% advance for the S&P 1500.

--Michael Souers

## Stock Performance

**GICS Sector: Consumer Discretionary**  
**Sub-Industry: Internet Retail**

Based on S&P 1500 Indexes  
Month-end Price Performance as of 08/31/11



Sub-Industry      Sector      S&P 1500

**NOTE:** All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS)

## Sub-Industry : Internet Retail Peer Group\*: Internet Retail - Large

Peer Group	Stock Symbol	Stk.Mkt. Cap. (Mil. \$)	Recent Stock Price(\$)	52 Week High/Low(\$)	Beta	Yield (%)	P/E Ratio	Fair Value Calc.(\$)	Quality Ranking	S&P IQ %ile	Return on Revenue (%)	LTD to Cap (%)
<b>Amazon.com Inc</b>	<b>AMZN</b>	<b>101,504</b>	<b>223.61</b>	<b>244.00/151.40</b>	<b>1.16</b>	<b>Nil</b>	<b>99</b>	<b>129.70</b>	<b>B-</b>	<b>96</b>	<b>3.4</b>	<b>NA</b>
1-800-FLOWERS.com <sup>A</sup>	FLWS	88	2.40	3.84/1.67	2.27	Nil	27	2.50	C	60	0.8	15.8
Blue Nile	NILE	502	35.17	64.45/30.32	NA	Nil	37	20.50	NR	23	4.3	NA
Expedia Inc	EXPE	6,756	27.17	32.89/19.61	1.93	1.0	17	20.70	NR	27	12.7	37.0
NetFlix Inc	NFLX	6,796	129.36	304.79/125.02	0.45	Nil	33	149.20	B	98	7.4	40.8
Overstock.com Inc	OSTK	222	9.53	17.69/8.91	1.92	Nil	73	4.80	B-	6	1.3	15.0
priceline.com Inc	PCLN	25,612	514.61	561.88/325.00	1.12	Nil	36	571.70	B	98	17.1	20.0

NA-Not Available NM-Not Meaningful NR-Not Rated. \*For Peer Groups with more than 15 companies or stocks, selection of issues is based on market capitalization.

**Amazon.com Inc****S&P Analyst Research Notes and other Company News****September 19, 2011**

10:06 am ET ... S&P LOWERS RECOMMENDATION ON SHARES OF AMAZON.COM TO HOLD FROM BUY (AMZN 235.15\*\*\*): After rising over 30% since our upgrade last month, we think the shares are now fairly valued, trading near our \$250 DCF-based target price. We favor AMZN's business model, solid sales execution and long-term growth opportunities. However, with the shares now trading at over 60X our '12 EPS estimate of \$3.79, we think those factors are already priced in. We expect continued near-term investments in fulfillment and technology to weigh on EPS results over the next several quarters, and believe potential state tax legislation may also crimp profit margins near term. /Michael Souers

**September 9, 2011**

Amazon.com Inc. announced that on September 8, 2011, the Board of Directors of the company elected Blake G. Krikorian as a director of the company. Mr. Krikorian is the founder of id8 Group Holdings.

**August 22, 2011**

09:44 am ET ... S&P UPGRADES RECOMMENDATION ON SHARES OF AMAZON.COM TO BUY FROM HOLD (AMZN 182.70\*\*\*\*): Following a recent 20% decline, we think AMZN is attractively priced trading well below our \$250 DCF-based target price. While we expect continued near-term investments in fulfillment and technology to weigh on the bottom line over the next several quarters, we believe AMZN has a significant opportunity for long-term operating margin growth. We think industry drivers remain positive, with worldwide online penetration growth and with more people choosing to shop online. In addition, AMZN's recent sales execution and market share gains have been peerless, in our opinion. /Michael Souers

**August 3, 2011**

09:29 am ET ... S&P KEEPS BUY OPINION ON SHARES OF CBS CORP. (CBS 26.28\*\*\*\*): Q2 EPS of \$0.58, vs. \$0.25, beat our \$0.39 estimate and Capital IQ consensus of \$0.45. We see solid all-around Q2 led by Entertainment and Cable Networks, plus local broadcasting and outdoor businesses, on strong operating leverage. We see early success on plans to de-risk business model (retransmission revenues, digital, int'l TV licensing, local). Despite softer Q3 ad pacsings, after robust 2011-12 TV upfront, and with sizable upside on Netflix (NFLX 257, Sell) and Amazon (AMZN 212, Hold) deals, we up our target price by \$2 to \$32 and note 1.5% yield and share buybacks. /T. Amobi, CPA, CFA

**July 27, 2011**

UP 0.00 to 214.18... AMZN posts \$0.41 vs. \$0.45 Q2 EPS despite 51% sales rise. Capital IQ consensus forecast was \$0.34. Sees Q3 sales of \$10.3B-\$11.1B, or up 36%- 47% from Q3 '10, operating income of \$20M-\$170M. S&P lowers estimates, raises target, reiterates hold....

**July 27, 2011**

09:36 am ET ... AMAZON.COM INC. (AMZN 225.83) UP 11.65, AMAZON (AMZN) POSTS Q2. OPPENHEIMER RAISES ESTIMATES, TARGET... Analyst Jason Helfstein says Q2 revenues up 44% y/y excl. forex, with 77% of growth from non-media sales. Notes US consumer revenues had largest share gain since '08. Says co.'s Q3 revenue guidance was above expectations, margin guidance below. Raises Q3 and '11 revenue guidance 9% and 3%, but lowers non-GAAP EPS 25% and 8%, respectively. Cuts \$2.94 '11 adj. EPS estimate to \$2.71, raises \$4.37 '12 to \$4.39, \$6.32 '13 to \$6.62. Raises \$220 target to \$250 on better-than-expected Q2, Q3 revenue guidance. Reiterates outperform. B. Brodie

**July 26, 2011**

05:49 pm ET ... S&P REITERATES HOLD RECOMMENDATION ON SHARES OF AMAZON.COM (AMZN 214.18\*\*\*\*): Q2 EPS of \$0.41, vs. \$0.45, is \$0.03 higher than our estimate and \$0.07 higher than Capital IQ consensus, driven by extraordinary sales growth of 51%. AMZN continues to invest heavily in infrastructure and technology, sacrificing near-term profitability for revenue growth. As a result of continued near-term investments, we are lowering our '11 and '12 EPS estimates to \$2.17 and \$3.79 from \$2.51 and \$3.87. However, we are raising our DCF-based target price by \$25 to \$250 on LT growth potential, and we think the shares are fairly valued despite trading at over 56X our '12 EPS est. /Michael Souers

**July 21, 2011**

02:52 pm ET ... S&P REITERATES HOLD RECOMMENDATION ON SHARES OF

AMAZON.COM (AMZN 212.89\*\*\*\*): Ahead of earnings on July 26, we are lowering our Q2 EPS estimate to \$0.38 from \$0.43. We expect sales to grow 43%, but expect continued near-term pressure on margins given recent infrastructure investments. We await further details on AMZN's planned release of a tablet by October, which could boost sales of e-books and streaming video. In the near term, AMZN appears to be sacrificing margins for long-term revenue opportunities. We are lowering our '11 and '12 EPS forecasts to \$2.51 and \$3.87 from \$2.66 and \$4.18, but are raising our DCF-based target price by \$25 to \$225. /Michael Souers

**April 27, 2011**

AMZN posts \$0.44 vs. \$0.66 Q1 EPS as higher expenses offset 38% sales rise. Street was at \$0.61-\$0.62. Co. sees Q2 sales of \$8.85B-\$9.65B, or up 35%-47% from Q2 '10. Sees operating income of \$95M-\$245M, or down 9%-65% from Q2 '10.

**April 27, 2011**

01:35 pm ET ... AMAZON.COM INC. (AMZN 193.44) UP 11.14, AMAZON (AMZN) REPORTS Q1 RESULTS. RBC CAPITAL RAISES TARGET, KEEPS OUTPERFORM... Analyst Ross Sandler tells salesforce AMZN reported another strong quarter with revenue growth of 38% to \$9.9B, non-GAAP op. income at mid point of guidance at \$465M, which was in-line with his est. Notes revenue was clearly the standout performer, with Media and Other segments in North America showing y/y acceleration vs. Q4, intl growth also accelerating in most regions ex-Japan. Notes co. investing heavily across the board, expects uncertainty on the duration of investment cycle to create entry points for LT oriented investors. Raises \$180 target to \$215. M.Morrow

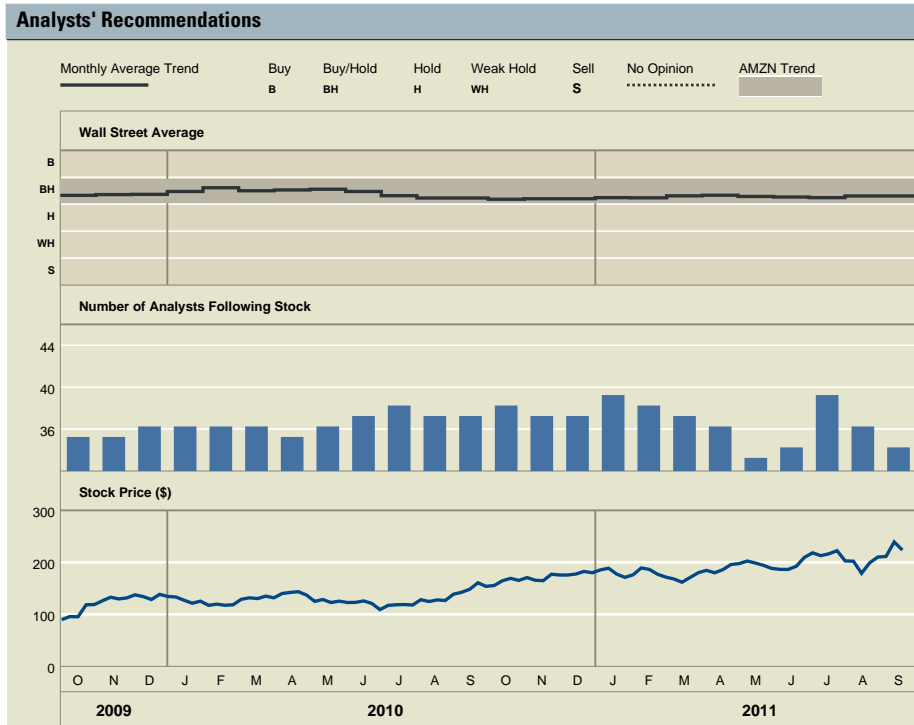
**April 27, 2011**

09:25 am ET ... S&P REITERATES HOLD RECOMMENDATION ON SHARES OF AMAZON.COM (AMZN 182.3\*\*\*\*): Q1 EPS of \$0.44, vs. \$0.66, is \$0.26 below our EPS estimate and \$0.17 below consensus from Capital IQ (an entity that operates independently of S&P Equity Research). While sales soared 38%, including unit growth of 51%, a major ramp up in fulfillment costs and technology infrastructure investments significantly narrowed operating margins. We are lowering our '11 and '12 EPS forecasts to \$2.66 and \$4.18 from \$3.25 and \$4.43 on continued near-term expense de-leverage, but these investments should benefit longer-term growth. We are keeping our DCF-based target price at \$200. /M. Souers

**March 31, 2011**

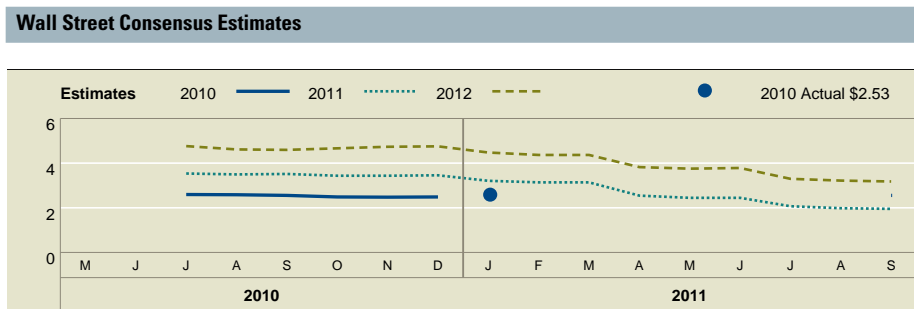
01:11 pm ET ... S&P ANTICIPATES CONTINUED RAPID EVOLUTION OF CLOUD-BASED MUSIC SERVICES (WMG 6.63\*\*\*\*): This week's unveiling of Amazon's (AMZN 180\*\*\*\*) cloud-based music offering seems the latest evolution signal for what could become one of the fastest-growing digital music segments. Despite some ruffled feathers in the music industry, we think so-called digital lockers portend inevitable L/T shift to personalized music and multi-platform access. With Europe-based Spotify closer to U.S. launch, and the likes of Google (GOOG 586\*\*\*\*), Sony (SNE 32\*\*\*\*), and Apple (AAPL 349\*\*\*\*) among potential cloud-based music players, we see convergence of other entrants in the year ahead. /T.Amobi-CPA,CFA

# Amazon.com Inc



Of the total 43 companies following AMZN, 35 analysts currently publish recommendations.

	No. of Ratings	% of Total	1 Mo. Prior	3 Mos. Prior
Buy	9	26	10	11
Buy/Hold	11	31	11	8
Hold	13	37	14	13
Weak Hold	0	0	0	0
Sell	1	3	1	2
No Opinion	1	3	1	2
<b>Total</b>	<b>35</b>	<b>100</b>	<b>37</b>	<b>36</b>



Fiscal Years	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2012	3.21	4.35	1.76	32	69.7
2011	1.97	2.45	1.38	33	NM
<b>2012 vs. 2011</b>	<b>▲ 63%</b>	<b>▲ 78%</b>	<b>▲ 28%</b>	<b>▼ -3%</b>	<b>NA</b>
Q3'12	0.59	0.90	0.23	13	NM
Q3'11	0.24	0.40	0.14	31	NM
<b>Q3'12 vs. Q3'11</b>	<b>▲ 146%</b>	<b>▲ 125%</b>	<b>▲ 64%</b>	<b>▼ -58%</b>	<b>NA</b>

A company's earnings outlook plays a major part in any investment decision. Standard & Poor's organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years. This graph shows the trend in analyst estimates over the past 15 months.

### Wall Street Consensus Opinion

**BUY/HOLD**

### Companies Offering Coverage

- Over 30 firms follow this stock; not all firms are displayed.
- Argus Research Company
  - Atlantic Equities
  - BGC Partners
  - BWS Financial
  - Barclays Capital
  - Battle Road Research
  - Bofa Merrill Lynch
  - Caris & Company
  - Citi
  - Clsa Limited
  - Collins Stewart LLC
  - Cowen AND Company
  - Credit Suisse - North America
  - Crowell, Weedon & Co.
  - Deutsche Bank North America
  - Evercore Partners
  - First Global Stockbroking Ltd.
  - Hudson Square Research
  - Janney Montgomery Scott LLC
  - Jefferies & Co.
  - Jpmorgan
  - Macquarie Research
  - Mcadams Wright Ragen
  - Morgan Stanley
  - Morningstar, Inc.
  - Needham & Company
  - Oppenheimer & Co.
  - Pacific Crest Securities
  - Piper Jaffray
  - RBC Capital Markets

### Wall Street Consensus vs. Performance

For fiscal year 2011, analysts estimate that AMZN will earn \$1.97. For the 2nd quarter of fiscal year 2011, AMZN announced earnings per share of \$0.41, representing 21% of the total annual estimate. For fiscal year 2012, analysts estimate that AMZN's earnings per share will grow by 63% to \$3.21.

# Amazon.com Inc

## Glossary

### S&P STARS

Since January 1, 1987, Standard and Poor's Equity Research Services has ranked a universe of common stocks based on a given stock's potential for future performance. Under proprietary STARS (Stock Appreciation Ranking System), S&P equity analysts rank stocks according to their individual forecast of a stock's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350 Index or S&P 500 Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

### S&P 12-Month Target Price

The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including S&P Fair Value.

### Investment Style Classification

Characterizes the stock as Growth or Value, and indicates its capitalization level. Growth is evaluated along three dimensions (earnings, sales and internal growth), while Value is evaluated along four dimensions (book-to-price, cash flow-to-price, dividend yield and sale-to-price). Growth stocks score higher than the market average on growth dimensions and lower on value dimensions. The reverse is true for Value stocks. Certain stocks are classified as Blend, indicating a mixture of growth and value characteristics and cannot be classified as purely growth or value.

### S&P EPS Estimates

Standard & Poor's earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, S&P EPS estimates reflect either forecasts of S&P equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by Capital IQ, a data provider to Standard & Poor's Equity Research. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

### S&P Core Earnings

Standard & Poor's Core Earnings is a uniform methodology for adjusting operating earnings by focusing on a company's after-tax earnings generated from its principal businesses. Included in the Standard & Poor's definition are employee stock option grant expenses, pension costs, restructuring charges from ongoing operations, write-downs of depreciable or amortizable operating assets, purchased research and development, M&A related expenses and unrealized gains/losses from hedging activities. Excluded from the definition are pension gains, impairment of goodwill charges, gains or losses from asset sales, reversal of prior-year charges and provision from litigation or insurance settlements.

### Qualitative Risk Assessment

The S&P equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment

is a relative ranking to the S&P U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices.

### Quantitative Evaluations

In contrast to our qualitative STARS recommendations, which are assigned by S&P analysts, the quantitative evaluations described below are derived from proprietary arithmetic models. These computer-driven evaluations may at times contradict an analyst's qualitative assessment of a stock. One primary reason for this is that different measures are used to determine each. For instance, when designating STARS, S&P analysts assess many factors that cannot be reflected in a model, such as risks and opportunities, management changes, recent competitive shifts, patent expiration, litigation risk, etc.

### S&P Quality Ranking

Growth and stability of earnings and dividends are deemed key elements in establishing S&P's Quality Rankings for common stocks, which are designed to capsize the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+ Highest	B Below Average
A High	B- Lower
A- Above Average	C Lowest
B+ Average	D In Reorganization
NR Not Ranked	

### S&P Fair Value Rank

Using S&P's exclusive proprietary quantitative model, stocks are ranked in one of five groups, ranging from Group 5, listing the most undervalued stocks, to Group 1, the most overvalued issues. Group 5 stocks are expected to generally outperform all others. A positive (+) or negative (-) Timing Index is placed next to the Fair Value ranking to further aid the selection process. A stock with a (+) added to the Fair Value Rank simply means that this stock has a somewhat better chance to outperform other stocks with the same Fair Value Rank. A stock with a (-) has a somewhat lesser chance to outperform other stocks with the same Fair Value Rank. The Fair Value rankings imply the following: 5-Stock is significantly undervalued; 4-Stock is moderately undervalued; 3-Stock is fairly valued; 2-Stock is modestly overvalued; 1-Stock is significantly overvalued.

### S&P Fair Value Calculation

The price at which a stock should trade at, according to S&P's proprietary quantitative model that incorporates both actual and estimated variables (as opposed to only actual variables in the case of S&P Quality Ranking). Relying heavily on a company's actual return on equity, the S&P Fair Value model places a value on a security based on placing a formula-derived price-to-book multiple on a company's consensus earnings per share estimate.

### Insider Activity

Gives an insight as to insider sentiment by showing whether directors, officers and key employees who have proprietary information not available to the general public, are buying or selling the company's stock during the most recent six months.

### Funds From Operations FFO

FFO is Funds from Operations and equal to a REIT's net income, excluding gains or losses from sales of property, plus real estate depreciation.

### Investability Quotient (IQ)

The IQ is a measure of investment desirability. It serves

as an indicator of potential medium-to-long term return and as a caution against downside risk. The measure takes into account variables such as technical indicators, earnings estimates, liquidity, financial ratios and selected S&P proprietary measures.

### S&P's IQ Rationale:

#### Amazon.com Inc

	Raw Score	Max Value
Proprietary S&P Measures	27	115
Technical Indicators	24	40
Liquidity/Volatility Measures	20	20
Quantitative Measures	61	75
<b>IQ Total</b>	<b>132</b>	<b>250</b>

### Volatility

Rates the volatility of the stock's price over the past year.

### Technical Evaluation

In researching the past market history of prices and trading volume for each company, S&P's computer models apply special technical methods and formulas to identify and project price trends for the stock.

### Relative Strength Rank

Shows, on a scale of 1 to 99, how the stock has performed versus all other companies in S&P's universe on a rolling 13-week basis.

### Global Industry Classification Standard (GICS)

An industry classification standard, developed by Standard & Poor's in collaboration with Morgan Stanley Capital International (MSCI). GICS is currently comprised of 10 Sectors, 24 Industry Groups, 68 Industries, and 154 Sub-Industries.

### S&P Issuer Credit Rating

A Standard & Poor's Issuer Credit Rating is a current opinion of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation. In addition, it does not take into account the creditworthiness of the guarantors, insurers, or other forms of credit enhancement on the obligation. The Issuer Credit Rating is not a recommendation to purchase, sell, or hold a financial obligation issued by an obligor, as it does not comment on market price or suitability for a particular investor. Issuer Credit Ratings are based on current information furnished by obligors or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform an audit in connection with any Issuer Credit Rating and may, on occasion, rely on unaudited financial information. Issuer Credit Ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances.

### Exchange Type

ASE - American Stock Exchange; NNM - Nasdaq National Market; NSC - Nasdaq SmallCap; NYSE - New York Stock Exchange; BB - OTC Bulletin Board; OT - Over-the-Counter; TO - Toronto Stock Exchange.

### S&P Equity Research Services

Standard & Poor's Equity Research Services U.S. includes Standard & Poor's Investment Advisory Services LLC; Standard & Poor's Equity Research Services Europe includes McGraw-Hill Financial Research Europe Limited trading as Standard & Poor's; Standard & Poor's Equity Research Services Asia includes Standard & Poor's LLC's offices in Singapore, Standard & Poor's Investment Advisory Services (HK) Limited in Hong Kong, Standard & Poor's Malaysia Sdn Bhd, and Standard & Poor's Information Services (Australia) Pty Ltd.

## Amazon.com Inc

### Abbreviations Used in S&P Equity Research Reports

**CAGR**- Compound Annual Growth Rate; **CAPEX**- Capital Expenditures; **CY**- Calendar Year; **DCF**- Discounted Cash Flow; **EBIT**- Earnings Before Interest and Taxes; **EBITDA**- Earnings Before Interest, Taxes, Depreciation and Amortization; **EPS**- Earnings Per Share; **EV**- Enterprise Value; **FCF**- Free Cash Flow; **FFO**- Funds From Operations; **FY**- Fiscal Year; **P/E**- Price/Earnings ; **PEG Ratio**- P/E-to-Growth Ratio; **PV**- Present Value; **R&D**- Research & Development; **ROE**- Return on Equity; **ROI**- Return on Investment; **ROIC**- Return on Invested Capital; **ROA**- Return on Assets; **SG&A**- Selling, General & Administrative Expenses; **WACC**- Weighted Average Cost of Capital

**Dividends on American Depository Receipts (ADRs) and American Depository Shares (ADSs) are net of taxes (paid in the country of origin).**

### Required Disclosures

In contrast to the qualitative STARS recommendations covered in this report, which are determined and assigned by S&P equity analysts, S&P's quantitative evaluations are derived from S&P's proprietary Fair Value quantitative model. In particular, the Fair Value Ranking methodology is a relative ranking methodology, whereas the STARS methodology is not. Because the Fair Value model and the STARS methodology reflect different criteria, assumptions and analytical methods, quantitative evaluations may at times differ from (or even contradict) an equity analyst's STARS recommendations. As a quantitative model, Fair Value relies on history and consensus estimates and does not introduce an element of subjectivity as can be the case with equity analysts in assigning STARS recommendations.

### S&P Global STARS Distribution

**In North America:** As of June 30, 2011, research analysts at Standard & Poor's Equity Research Services North America recommended 38.4% of issuers with buy recommendations, 54.8% with hold recommendations and 6.8% with sell recommendations.

**In Europe:** As of June 30, 2011, research analysts at Standard & Poor's Equity Research Services Europe recommended 36.0% of issuers with buy recommendations, 48.3% with hold recommendations and 15.7% with sell recommendations.

**In Asia:** As of June 30, 2011, research analysts at Standard & Poor's Equity Research Services Asia recommended 45.1% of issuers with buy recommendations, 47.7% with hold recommendations and 7.2% with sell recommendations.

**Globally:** As of June 30, 2011, research analysts at Standard & Poor's Equity Research Services globally recommended 38.6% of issuers with buy recommendations, 53.2% with hold recommendations and 8.2% with sell recommendations.

★★★★★ **5-STARS (Strong Buy):** Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★☆ **4-STARS (Buy):** Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★☆☆ **3-STARS (Hold):** Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★☆☆☆ **2-STARS (Sell):** Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

★★★★☆ **1-STARS (Strong Sell):** Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

**Relevant benchmarks:** In North America the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are generally the S&P Europe 350 Index and the S&P Asia 50 Index.

**For All Regions:** All of the views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of analyst compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed in this research report.

### S&P Global Quantitative Recommendations Distribution

**In Europe:** As of June 30, 2011, Standard & Poor's Quantitative Services Europe recommended 51.0% of issuers with buy recommendations, 19.0% with hold recommendations and 29.0% with sell recommendations.

**In Asia:** As of June 30, 2011, Standard & Poor's Quantitative Services Asia recommended 45.1% of issuers with buy recommendations, 23.0% with hold recommendations and 33.0% with sell recommendations.

**Globally:** As of June 30, 2011, Standard & Poor's Quantitative Services globally recommended 43.0% of issuers with buy recommendations, 21.0% with hold recommendations and 34.0% with sell recommendations.

**Additional information is available upon request.**

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# Amazon.com Inc

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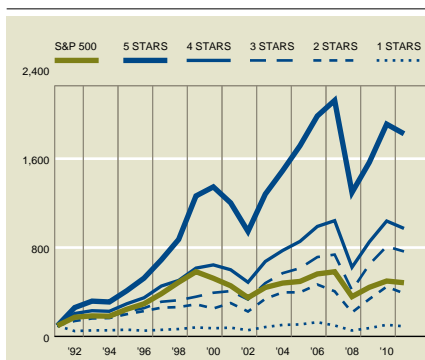
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### U.S. STARS Cumulative Model Performance

Hypothetical Growth Due to Price Appreciation of \$100 For the Period 12/31/1986 through 08/31/2011



The performance above represents only the results of Standard & Poor's model portfolios. Model performance has inherent limitations. Standard & Poor's maintains the models and calculates the model performance shown, but does not manage actual assets. The U.S. STARS model performance chart is only an illustration of Standard & Poor's (S&P) research; it shows how U.S. common stocks, ADRs (American Depositary Receipts) and ADSs (American Depositary Shares), collectively "equities", that received particular STARS rankings performed. STARS categories are models only; they are not collective investment funds. The STARS performance does not show how any actual portfolio has performed. STARS model performance does not represent the results of actual trading of investor assets. Thus, the model performance shown does not reflect the impact that material economic and market factors might have had on decision-making if actual investor money had been managed. Performance is calculated using a time-weighted rate of return. While model performance for some or all STARS categories performed better than the S&P 500 for the period shown, the performance during any shorter period may not have, and there is no assurance that they will perform better than the S&P 500 in the future. STARS does not take into account any particular investment objective, financial situation or need and is not intended as an investment recommendation or strategy. Investments based on the STARS methodology may lose money. High returns are not necessarily the norm and there is no assurance that they can be sustained. Past model performance of STARS is no guarantee of future performance.

For model performance calculation purposes, the equities within each STARS category at December 31, 1986 were equally weighted. Thereafter, additions to the composition of the equities in each STARS category are made at the average value of the STARS category at the preceding month end with no rebalancing. Deletions are

made at the closing price of the day that the deletion is made. Performance was calculated from inception through March 31, 2003 on a monthly basis. Thereafter, performance is calculated daily. Equities in each STARS category will change over time, and some or all of the equities that received STARS rankings during the time period shown may not have maintained their STARS ranking during the entire period.

The model performance does not consider taxes and brokerage commissions, nor does it reflect the deduction of any advisory or other fees charged by advisors or other parties that investors will incur when their accounts are managed in accordance with the models. The imposition of these fees and charges would cause actual performance to be lower than the performance shown. For example, if a model returned 10 percent on a \$100,000 investment for a 12-month period (or \$10,000) and an annual asset-based fee of 1.5 percent were imposed at the end of the period (or \$1,650), the net return would be 8.35 percent (or \$8,350) for the year. Over 3 years, an annual 1.5% fee taken at year end with an assumed 10% return per year would result in a cumulative gross return of 33.1%, a total fee of \$5,375 and a cumulative net return of 27.2% (or \$27,200). Fees deducted on a frequency other than annual would result in a different cumulative net return in the preceding example.

The Standard & Poor's 500 index is the benchmark for U.S. STARS. The S&P 500 index is calculated in U.S. dollars and does not take into account the reinvestment of dividends. Indexes are unmanaged, statistical composites and their returns do not include payment of any sales charges or fees an investor would pay to purchase the securities they represent. Such costs would lower performance. It is not possible to invest directly in an index. The S&P 500 index includes a different number of constituents and has different risk characteristics than the STARS equities. Some of the STARS equities may have been included in the S&P 500 index for some (but not necessarily all) of the period covered in the chart, and some such equities may not have been included at all. The S&P 500 excludes ADRs and ADSs. The methodology for calculating the return of the S&P 500 index differs from the methodology of calculating the return for STARS. Past performance of the S&P 500 index is no guarantee of future performance.

An investment based upon the models should only be made after consulting with a financial advisor and with an understanding of the risks associated with any investment in securities, including, but not limited to, market risk, currency risk, political and credit risks, the risk of economic recession and the risk that issuers of securities or general stock market conditions may worsen, over time. Foreign investing involves certain risks, including currency fluctuations and controls, restrictions on foreign investments, less governmental supervision and regulation, less liquidity and the potential for market volatility and political instability. As with any investment, investment returns and principal value will fluctuate, so that when redeemed, an investor's shares may be worth more or less than their original cost.

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