

Amazon.com (AMZN US)

FUNDAMENTAL VIEW ¹

As of 11 Aug 2023

- We continue to have confidence in CEO Andy Jassy and the company's long-term business for both AWS and consumer. The 2Q23 results support our view as AWS growth is stabilizing and the North America consumer segment significantly improved its GAAP operating profit. AWS customers are shifting from workload optimizations to new workload deployments, and we expect AWS to remain a profitable growth driver for the foreseeable future.
- We anticipate the North America segment to see continued profitability improvements driven by operating leverage, cost reductions, and productivity gains including the regionalization of its fulfillment network. Gross leverage declined by nearly 2 ticks to 0.8x or 1.6x on a lease-adjusted basis. Also, Amazon's equity cushion is ~\$1.4 tn.

RISKS & CATALYSTS

As of 11 Aug 2023

- We think Amazon has moderate event risk as its large size (~\$1.4 tn market cap) provides a buffer against the regulatory risks.
- Amazon has taken steps to improve profitability including multiple rounds of layoffs which could preempt activist investor campaigns that have become more common lately for Big Tech including GOOGL and META.
- Amazon continues to face regulatory scrutiny. The FTC is finalizing a lawsuit alleging AMZN disadvantages third-party merchants who do not use its services. The biggest risk would be a breakup, although we view that as unlikely.
- Amazon's \$14 bn acquisition of Whole Foods has shown its proclivity for large M&A, although the regulatory environment could make large deals challenging e.g., FTC scrutiny on its \$8.5 bn MGM acquisition.
- Amazon repurchased \$6.0 bn shares in 1H22, which were the first buybacks in 10 years, although the company has not repurchased any shares since then.

CREDIT QUALITY SCORE (CQS) ²

As of 22 Jan 2024

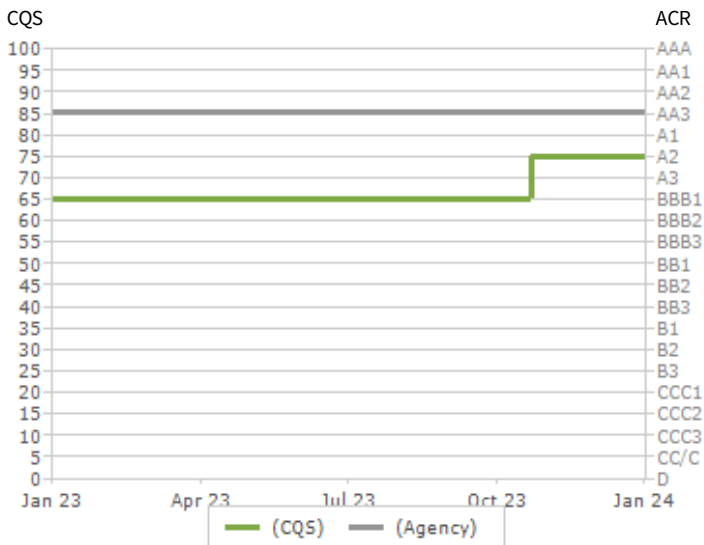
CURRENT CQS

75

CQS OUTLOOK ³

NEGATIVE STABLE POSITIVE

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR) ⁴ VS CQS



KEY METRICS

As of 11 Aug 2023

\$ MN	2019	2020	2021	2022	LTM 2Q23
Revenue YoY %	20.5%	37.6%	21.7%	9.4%	10.7%
EBITDA	43,394	57,284	71,994	74,593	87,648
EBITDA Margin	15.5%	14.8%	15.3%	14.5%	16.3%
CapEx % of Sales	4.5%	9.1%	11.8%	11.3%	10.0%
Sh. Ret. % of CFO-CapEx	0%	0%	0%	(52%)	0%
Net Debt	(30,201)	(50,497)	(44,771)	7,316	7,902
Gross Leverage	0.6x	0.6x	0.7x	1.0x	0.8x
EV / EBITDA	20.8x	28.3x	23.3x	11.7x	15.6x

BUSINESS DESCRIPTION

As of 11 Aug 2023

- Amazon is an e-commerce company which sells a wide range of its own products and those of 3rd party sellers. Amazon offers fulfillment services for 3rd party sellers (FBA) and sells cloud computing services (AWS). In 2Q23, 3rd party units were 60% of total paid units, and FBA units are a majority of 3rd party units.
- In LTM 2Q23, NA segment was 62% of sales, International was 22% of sales, and AWS was 16% of sales.
- Amazon disclosed it surpassed 200 mn Prime members in April 2021. The annual membership was increased in February 2022 from \$119 to \$139 in the US, although fees vary by country. In mid-2019, Amazon Prime began to transition from 2-day to 1-day shipping. Amazon Prime also offers Prime Video, streaming music, and other benefits.
- In 2006, Amazon launched AWS which remains the leader in cloud computing (IaaS/PaaS). Amazon sells its own devices (e-reader, smart speaker, streaming media player, etc.).

GLOSSARY

- ¹ The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.
 - ² The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.
 - ³ The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.
 - ⁴ The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.
- Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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