Amazon.com, Inc.

NASD: AMZN - Internet Retail

Grade 49.3

Rated ‘SELL’ since Aug 1st, 2017, when it was downgraded from ‘BUY’

Overview

Company Scores Poor Fundamental Grades

MarketGrader currently has a SELL rating on Amazon.com, Inc. (AMZN), based on a final overall grade of 49.3 scored by the company's fundamental analysis. Amazon.com, Inc. scores at the 65th percentile among all 5793 North American equities currently followed by MarketGrader. Our present rating dates to August 1, 2017, when it was downgraded from a BUY. Relative to the Internet Retail sub-industry, which is comprised of 16 companies, Amazon.com, Inc.’s grade of 49.3 ranks fifth. The industry grade leader is Alibaba Group Holding Ltd. Sponsored ADR (BABA) with an overall grade of 67.0. The stock, up 11.86% in the last six months, has outperformed both the Internet Retail group, down 0.8% and the S&P 500 Index, which has returned 9.46% in the same period. Please go to pages two and three of this report for a complete breakdown of AMZN’s fundamental analysis.

Earnings

- Last Earnings Release: 07/28/2017
- Last Qtr. Actual vs. Est.: $0.40 / $1.42
- Next Release: 10/26/2017
- Year Ending 12/31/2016: $4.84
- Year Ending 12/31/2018: $12.32

Quick Facts

- Dividend Yield: N/A
- 52 Wk High: $1,052.80
- 52 Wk Low: $719.07
- Short Interest: 0% of float
- Market Cap: $478.0B

Price, Rating and Sentiment History - 2 Years

The Company's Recent Reports Reflect Solid Top and Bottom Line Growth

Amazon.com, booked $150.12 billion in total revenue during the 12 month period ended last quarter, 83.62% higher than the equivalent period ended three years ago, when total revenue was $81.76 billion. This already-healthy top line growth trend seems to have accelerated recently based on the company's revenue of $37.96 billion reported in its latest quarter, 24.84% above the $30.40 billion in total sales posted during the same quarter a year earlier. A few more quarters of such strong growth will eventually translate into a higher long term growth rate, positively impacting some of Amazon.com,'s growth grades. If, on the other hand, growth tapers off moderately, the company's long term sales growth is likely to remain at current levels, not a bad thing at all. It also reported a yearly drop in profit during the last quarter from the year earlier period, a sudden reversal from the strong profit growth the company has been posting on a long term basis. MarketGrader measures long term profit growth by comparing the latest full year profit (12-month trailing) to the equivalent period's results three years earlier. Amazon.com,'s Second quarter net fell 77.01% to $197.00 million from the year earlier profit of $857.00 million (excluding extraordinary items), which contrasts with its growth in 12-month trailing profit over a three year period. Also including last quarter's results, the company's profit grew to $1.92 billion for the 12 months ended June 30, 2017, a 961.88% jump from full year profit of $181.00 million reported for the period ended three years earlier. The company's margins contracted during the latest quarter with an average 16.32% decline in EBITDA, operating and net margins from a year earlier, reversing the preceding quarter's margin expansion.

Despite a considerable earnings shortfall reported by the company on July 28, 2017, in which earnings per share were 71.83% lower than what analysts were expecting, the stock fell only 5.57% following the news. Despite this negative report, its earnings surprise record, calculated by MarketGrader as the average of the last six reports, continues to be positive; it has beaten the consensus estimate by an average of 14.24% over such period.

Current Valuation Implies Investors Have High Expectations for a Turnaround in the Company's Fundamentals Making the Stock Risky

Amazon.com,'s shares trade currently at 252.54 times the company's 12-months' earnings per share, more than three times our "optimum" P/E of 27.46. This ratio is calculated by MarketGrader by looking at the last five years' quarterly earnings, in 12-month rolling periods, in order to determine their growth rate. On this account Amazon.com,'s earnings per share have grown at an annualized rate of 37.04% during this time. In order to sustain this growth rate and a high P/E multiple, the company's recent margin contraction must be reversed and its overall Profitability grade must show significant improvement soon. The stock's forward P/E of 191.28, based on estimates for the next four quarters, is higher than the S&P 500's forward P/E of 15.20 but lower than its trailing P/E. The lower multiple investors are paying for its future earnings compared to past earnings reflects how high expectations are for future earnings growth, which run ahead of expectations for the market as a whole. Considering the company's poor overall fundamentals this premium over the S&P appears risky and sets up the stock for a significant fall if future earnings disappoint.

Amazon.com,'s price to book ratio varies significantly depending whether intangible assets (which make up an astounding 54.14% of total stockholders' equity) are included into total assets. If they are, the stock's price to book ratio is a moderate 21.09, while removing intangible assets such as goodwill results in a much richer price to book ratio of 45.98, attaching very high expectations to the company's future earnings power. Investors are currently paying for the stock 28.17 times the $35.32 in cash flow per share generated by the company in the last four quarters, an excessive premium for its earnings prospects considering its poor fundamentals. Its shares also trade at 3.18 times its trailing 12-month sales, a small 32.22% discount to the Internet Retail industry average price to sales ratio of 2.41. Finally, from a value perspective, we look at how much bigger the company's market capitalization is than its latest operating profits after subtracting taxes. According to this calculation the company's current market cap is excessive at 43.79 times its quarterly net income (plus depreciation, a non-cash charge to earnings).
Company’s Weak Profitability Grades Underscore a Difficult Operating Environment

Amazon.com, which barely eked out a profit over the last 12 months, has plenty of weaknesses among its poor profitability indicators, primarily a very mediocre return on equity and below average margins. The $1.92 billion in net profits booked by the company in the last 12 months represent only 1.28% of total sales, while its operating margins in the same period trailed the industry average. During the same period the Internet Retail industry had an average operating margin of 6.90%, 71.76% better than the company’s 2.42% margin. Amazon.com’s return on equity deteriorated significantly during the last twelve months to 8.28% from the year earlier period's 11.68%. Although the most recent value is still acceptable, it underscores a worrisome trend in an indicator MarketGrader considers very important in measuring the company’s management’s efficiency.

In light of such a significant decline it’s prudent that the company maintain the current health of its capital structure until things turn around. Its leverage is adequate, with total debt 1.02 times its total equity and long term debt accounting for 42.96% of total capital. Amazon.com’s core earnings in the last twelve months grew moderately from the twelve months ended a year earlier. The company’s EBITDA for the most recent period was $12.72 billion, or 23.01% above the $10.34 billion earned from its core operations in the prior period. EBITDA is used by MarketGrader to measure the company’s true earnings power since it includes interest expenses, income taxes, depreciation and amortization, all non-operating expenses, which are nevertheless accounted for in other parts of our analysis that look at EPS gains and net income.

Company’s Management of its Cash Flow Appears Very Sound but Could Improve in a Few Areas

Amazon.com, made $3.83 billion in cash flow last quarter, 10.50% better than the $3.46 billion reported last year for the comparable period. This is significantly lower than the 36.54% growth in twelve month trailing cash flow, an indication of a sharp slowdown in the company’s core operating income and overall business environment. The company’s net debt to EBITDA ratio jumped from 0.28 a year ago to 0.67 in the latest reported quarter, based on net debt (total debt minus cash on hand) of $2.17 billion and EBITDA of $3.24 billion. While the increase from the year before was pretty significant, the current ratio is still very low and suggests the company is managing its leverage appropriately and could easily pay off its debt with the cash it has on hand and what it generates from operations. However, also during the same period, its total debt as a percentage of total capital was actually reduced from 51.92% a year ago to 50.43% in the latest quarter. Together with a 26.21% increase in cash on hand, this suggests the company’s liquidity is no worse today than it was a year ago and that it is managing its debt reasonably well.

Our Economic Value indicator measures how much the company generates in true economic profit by accounting not only for its costs of doing business (operating costs) but also the cost of the capital it employs. Based on its 12-month trailing operating income, Amazon.com’s return on $40.70 billion in invested capital was 8.94%. The total after tax cost of capital, which includes all forms of equity plus long term debt, was 7.07% in the last year. The weighted cost of equity, or 6.45%, was significantly larger than the weighted cost of debt, which was 0.62%. When these costs are deducted from the return described above it results in a very poor economic value added (EVA) of 1.88%. This means Amazon.com’s investors are receiving a mediocre return on the capital they’ve tied up with the company. Amazon.com, does not pay a dividend and hasn’t done so within at least the last five years.
Amazon.com, Inc. provides online retail shopping services. It provides services four primary customer sets: consumers, sellers, enterprises, and content creators. The company generates revenue through other marketing and promotional services, such as online advertising and co-branded credit card agreements. It serves consumers through its retail websites with a focus on selection, price, and convenience. It designs its websites to enable millions of unique products to be sold by the company and by third parties across dozens of product categories. It also manufactures and sells the Kindle e-reader and strives to offer customers the lowest prices possible through low every day product pricing and free shipping offers, including through membership in Amazon Prime. The company offers programs that enable sellers to sell their products on its websites and their own branded websites, earning fixed fees, revenue share fees or per-unit activity fees from these transactions. It also serves developers and enterprises of all sizes through Amazon Web Services, which provides access to technology infrastructure that enables virtually any type of business. The company operates in two principal segments: North America and International. The North America segment consists of retail sales of consumer products and subscriptions through North America-focused websites such as www.amazon.com and www.amazon.ca. The International segment consists of retail sales of consumer products and subscriptions through internationally focused locations. This segment includes export sales from these internationally based locations, including export sales from these sites to customers in the U.S. and Canada. Amazon was founded by Jeffrey P. Bezos in 1994 and is headquartered in Seattle, WA.
Amazon.com, Inc.

NASD: AMZN - Internet Retail

Top Down Analysis

<table>
<thead>
<tr>
<th>#</th>
<th>Ticker</th>
<th>Grade</th>
<th>Sentiment</th>
<th>Name</th>
<th>Price</th>
<th>Next EPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ITRN</td>
<td>81.07</td>
<td>P</td>
<td>Ituran Location &amp; Control Ltd.</td>
<td>$37.15</td>
<td>08/11/2016</td>
</tr>
<tr>
<td>2</td>
<td>THO</td>
<td>80.17</td>
<td>P</td>
<td>Thor Industries, Inc.</td>
<td>$127.77</td>
<td>12/04/2017</td>
</tr>
<tr>
<td>3</td>
<td>GTN</td>
<td>79.99</td>
<td>P</td>
<td>Gray Television, Inc.</td>
<td>$15.90</td>
<td>08/10/2017</td>
</tr>
<tr>
<td>4</td>
<td>GTN.A</td>
<td>79.66</td>
<td>P</td>
<td>Gray Television, Inc. Class A</td>
<td>$13.25</td>
<td>08/10/2017</td>
</tr>
<tr>
<td>5</td>
<td>NVR</td>
<td>75.39</td>
<td>P</td>
<td>NVR, Inc.</td>
<td>$2,923.15</td>
<td>07/24/2017</td>
</tr>
<tr>
<td>6</td>
<td>NTRI</td>
<td>75.37</td>
<td>P</td>
<td>Nutrisystem, Inc.</td>
<td>$58.25</td>
<td>08/01/2017</td>
</tr>
<tr>
<td>7</td>
<td>CMCSA</td>
<td>75.09</td>
<td>P</td>
<td>Comcast Corporation Class A</td>
<td>$37.42</td>
<td>08/02/2017</td>
</tr>
<tr>
<td>8</td>
<td>NKE</td>
<td>74.06</td>
<td>N</td>
<td>NIKE, Inc. Class B</td>
<td>$51.03</td>
<td>09/28/2017</td>
</tr>
<tr>
<td>9</td>
<td>MAR</td>
<td>73.61</td>
<td>P</td>
<td>Marriott International, Inc. Class A</td>
<td>$114.13</td>
<td>11/01/2017</td>
</tr>
<tr>
<td>10</td>
<td>HD</td>
<td>73.60</td>
<td>P</td>
<td>Home Depot, Inc.</td>
<td>$165.25</td>
<td>08/22/2017</td>
</tr>
<tr>
<td>254</td>
<td>AMZN</td>
<td>49.31</td>
<td>P</td>
<td>Amazon.com, Inc.</td>
<td>$995.00</td>
<td>10/26/2017</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>#</th>
<th>Ticker</th>
<th>Grade</th>
<th>Sentiment</th>
<th>Name</th>
<th>Price</th>
<th>Next EPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>BABA</td>
<td>66.99</td>
<td>P</td>
<td>Alibaba Group Holding Ltd. Sponsored</td>
<td>$184.89</td>
<td>11/01/2017</td>
</tr>
<tr>
<td>2</td>
<td>VIPS</td>
<td>66.19</td>
<td>N</td>
<td>Vipshop Holdings Ltd Sponsored ADR</td>
<td>$8.15</td>
<td>11/21/2017</td>
</tr>
<tr>
<td>3</td>
<td>FLWS</td>
<td>58.95</td>
<td>N</td>
<td>1-800-FLOWERS.COM, Inc. Class A</td>
<td>$9.95</td>
<td>10/31/2017</td>
</tr>
<tr>
<td>4</td>
<td>PRTS</td>
<td>57.20</td>
<td>N</td>
<td>U.S. Auto Parts Network, Inc.</td>
<td>$2.89</td>
<td>11/06/2017</td>
</tr>
<tr>
<td>5</td>
<td>AMZN</td>
<td>49.31</td>
<td>P</td>
<td>Amazon.com, Inc.</td>
<td>$995.00</td>
<td>10/26/2017</td>
</tr>
<tr>
<td>6</td>
<td>JD</td>
<td>40.70</td>
<td>N</td>
<td>JD.com, Inc. Sponsored ADR Class A</td>
<td>$39.62</td>
<td>11/20/2017</td>
</tr>
<tr>
<td>7</td>
<td>LITB</td>
<td>35.98</td>
<td>N</td>
<td>LightInTheBox Holding Co., Ltd.</td>
<td>$2.32</td>
<td>12/11/2017</td>
</tr>
<tr>
<td>8</td>
<td>JMEI</td>
<td>32.50</td>
<td>N</td>
<td>Jumei International Holding Ltd</td>
<td>$2.91</td>
<td>05/25/2017</td>
</tr>
<tr>
<td>9</td>
<td>W</td>
<td>24.68</td>
<td>N</td>
<td>Wayfair, Inc. Class A</td>
<td>$66.22</td>
<td>08/16/2017</td>
</tr>
<tr>
<td>10</td>
<td>OSTK</td>
<td>18.49</td>
<td>N</td>
<td>Overstock.com, Inc.</td>
<td>$28.80</td>
<td>10/26/2017</td>
</tr>
</tbody>
</table>

Consumer Discretionary

Stocks in Sector: 667
Buys: 117 (17.54%)
Holds: 126 (18.89%)
Sells: 424 (63.57%)
No. of stocks at:
52-Wk. High: 45
52-Wk. Low: 23
Above 50 & 200-day MA: 315
Below 50 & 200-day MA: 175

Internet Retail

Stocks in Sub-Industry: 16
Buys: 2 (12.50%)
Holds: 2 (12.50%)
Sells: 12 (75.00%)
No. of stocks at:
52-Wk. High: 1
52-Wk. Low: 2
Above 50 & 200-day MA: 4
Below 50 & 200-day MA: 6

1. Price Trend.               B+
2. Price Momentum.      C
3. Earnings Guidance.   B-
4. Short Interest.            A+

Sentiment

AMZN – 1 Years

AMZN – 1 Year Comparison

Copyright 2010 MarketGrader.com Corp. All rights reserved. Any unauthorized use or disclosure is prohibited. Neither the information nor any opinion expressed constitutes an offer to buy or sell any securities or any options, futures or other derivatives related to such securities ("related investments"). The information herein was obtained from various sources; we do not guarantee its accuracy or completeness. This research report is prepared for general circulation and is circulated for general information only. It does not have regards to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities, if any, may fluctuate and that each security's price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Future returns are not guaranteed, and a loss of original capital may occur. MarketGrader does not make markets in any of the securities mentioned in this report. MarketGrader does not have any investment banking relationships. MarketGrader and its employees may have long/short positions or holdings in the securities or other related investments of companies mentioned herein. Officers or Directors of MarketGrader.com Corp. are not employees of covered companies. MarketGrader or any of its employees do not own shares equal to one percent or more of the company in this report.