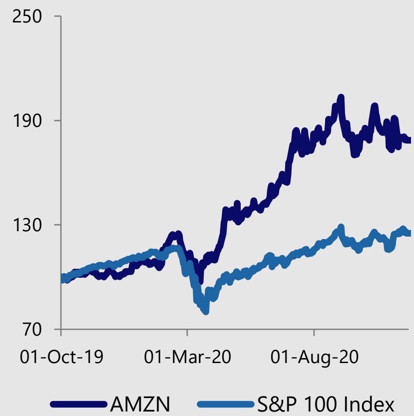
RESEARCH REPORT

November 23, 2020

Ticker	AMZN
Market Cap (MM)	$1,555,127
P/E 2021E	79.09x

52 Week Performance



Amazon.com, Inc.

Amazon Part I: The Retail Business

Since the QUIC Consumers team first purchased shares of Amazon.com in November 2016, the company has grown dramatically, entered into new business lines, and seen its share price more than triple. In light of the COVID pandemic and how much Amazon has evolved in recent years, the Consumers team believed it was a good time to re-evaluate Amazon's growth prospects going forward and how the company should (roughly) be valued considering these growth prospects. Given the size and complexity of Amazon, our review of the business will be split into two parts with Part I focusing on the retail business and Part II focusing on AWS and the company's other bets.

As CEO Jeff Bezos famously wrote in his 1997 letter to shareholders, "It's All About the Long Term" when talking about Amazon.com. For this reason, the Consumers team chose to build a 10-year financial model wherein we projected revenue and EBIT for the company's North America and International segments through 2030. While not an extremely detailed model, we believe that in the case of Amazon, it is better to be approximately right than precisely wrong. We then applied a 25x multiple to our 2030 EBIT projection to arrive at a value of ~$1.7T for Amazon's retail business, which is more than the market capitalization of the entire company today.

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The Evolution of Amazon's Retail Business

Since it started selling books online in 1995, Amazon.com, Inc. ("AMZN") has expanded into scores of markets, from online platforms to brick-and-mortar stores, but retail remains at the core of its success, representing more than half of its 2019 revenue. Amazon is the largest e-commerce business in the U.S., amassing roughly 44% of the market share, according to Bank of America estimates. In order to understand the scope of Amazon's reach, it is important to analyze the company's retail strategy and its many moving parts, including a platform for third-party sellers and technology for checkout-free shopping.

Amazon.com

AMZN's online shopping platform, which makes up most of the company's retail business, offers a wide selection of items, accompanied by reviews and ratings to inform customers' purchase decisions. The company was an early online retailer and set the standard for the e-commerce customer experience. This platform includes sales from the over 100 Amazon private-label brands, such as Amazon Basics.

Moreover, Prime, the membership program that underpins the entirety of Amazon's retail business model, incentivizes customers to continue shopping on the platform through exclusive deals, products, discounts, and free delivery.

Amazon Marketplace

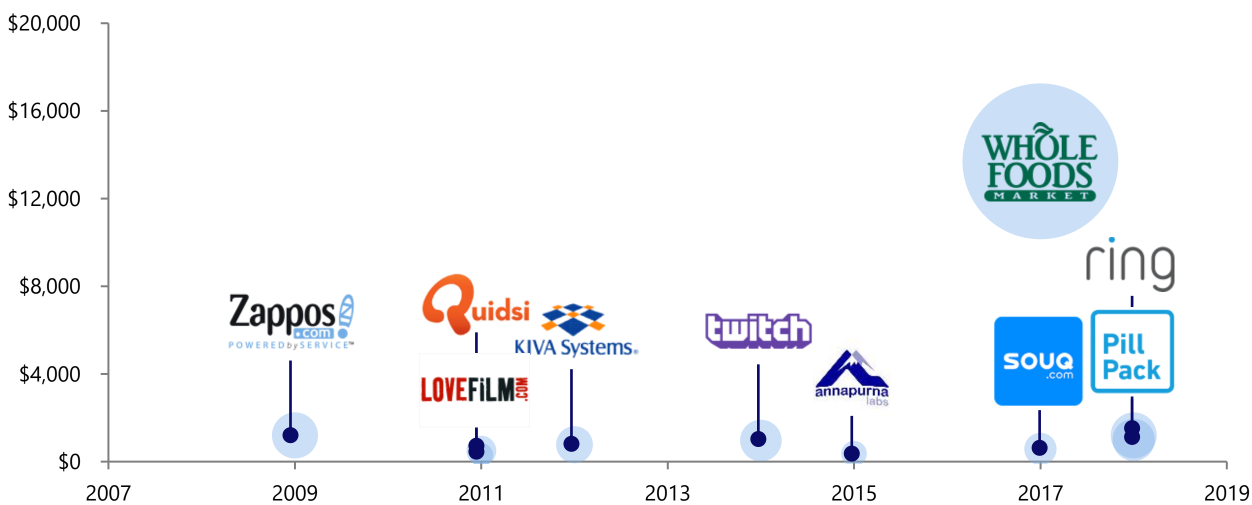
Vendors and other independent third-party retailers can use Marketplace to sell their own products to Amazon's e-commerce audience. In addition to the referral fee sellers must pay, Amazon receives a royalty of all sales. Third-party sellers contribute to 50% of the company's total e-commerce sales.

Amazon Physical Stores

Since the launch of its first bookstore in 2015, AMZN has taken its retail business into physical stores, through both acquisitions and its own builds.

EXHIBIT I

Amazon's Top 10 Acquisitions Timeline ($USD M)



Source(s): CBInsights

The Evolution of Amazon’s Retail Business

Amazon made its biggest move into physical stores with the $13.7B acquisition of Whole Foods in 2017, marking its entrance into the food retail industry. There are now approximately 500 Whole Foods locations, up from 470 at the time of acquisition.

Amazon added checkout-free shopping to its retail strategy with Amazon Go and Amazon Go Grocery. Amazon Go is a chain of 25 convenience stores located in Chicago, New York, San Francisco and Seattle, which first opened in 2018. Customers scan the Amazon Go app when they enter the store and fill their carts with items. When customers finish shopping, they exit the store without checking out at a register. The Amazon Go app tracks a virtual cart of all the customer's items and then bills the person's Amazon account.

Acquisition Strategy

In a 2015 shareholder letter, Jeff Bezos stated that a great acquisition has four characteristics: “Customers love it, it can grow to a very large size, it has strong returns on capital, and its durable in time”.

Notably, many of Amazon’s largest deals meet some or all of these criteria, proving to be capable of growth and durability in the long run. When comparing Amazon’s 2005 income statement to its 2015 business lines, it is evident that the company has used acquisitions to turn its expense lines into revenue sources.

Even years later, many of these are still fast-growing, significant aspects of the company’s structure. Kiva’s robots have helped cut operating expenses in fulfillment centers by 20%, while Zappos played a crucial role in building Amazon’s retail business and the creation of private label clothing brands. The Souq.com purchase allowed Amazon to expand its e-commerce footprint into Egypt, Saudi Arabia, and the UAE, and came at a time when Amazon’s overseas efforts, particularly in Asia, were beset by intense competition.

While Amazon’s biggest-ticket M&A deals helped it establish itself in new markets and technologies, the recent theme has undoubtedly been about fortifying its AWS offerings.

EXHIBIT II

Comparison of Amazon’s 2005 Income Statement and 2015 Business Lines

(in millions, except per share data)	**Year Ended December 31,**	
	2005	
Net Sales	$	8,490
Product Costs		6,212
Shipping Costs		239
Gross Profit	$	2,039
Operating Expenses:		
Fulfillment	$	522
Technology & Content		406
Marketing		192
Payment Processing		207
General & Administrative		146
Income from Operations	$	566

2015 Business Lines

Source(s): Social Capital

Retail Business - Competitive Advantages

Since Amazon's humble beginnings as an online bookstore, it has grown to over 2.5B desktop and mobile visits to its site per month. Its priority in customer experience, scale advantage by acquisitions and supply chain, and the network effect result in its leading eCommerce and retail market share.

High Degree of Consumer Trust

When shopping within a bricks-and-mortar retailer, consumers are fully immersed in a transparent environment where they can touch and see their products or ask employees for support. However, this interactive experience is entirely stripped away with an online platform. In turn, consumers must be confident that their delivered product reflects the perceived quality described in the virtual marketplace. With a widespread trust from its consumers, Amazon can take advantage of a halo effect of trust, to secure consumer conversion. Additionally, third-party sellers take consumer trust seriously as Amazon's level of consumer trust also impacts their own ability to generate sales on the site.

Amazon also obtains its trust through years of achieving the "perfect delivery rate", which includes a low rate of substitution. Consumer attraction and retention is gained through its sustained promise and performance of fast delivery. In 2019, Amazon implemented a "one-day shipping" option, further reinforcing consumer trust as it maintains its quality shipping policies. Optimizing the user interface on the website from user reviews and ratings also increases merchant and product transparency to reinforce Amazon's reliability. Finally, Amazon focuses on having high product availability, though this sometimes comes with a higher shrinkage allowance (loss of inventory) compared to its competitors.

In 2020, Amazon saw over 213M unique visitors, with 67% of users owning an Amazon Prime membership. From 2016 to 2020, the Prime member count grew with a 9.3% CAGR— indicating a strong sign of increasing trust and confidence amongst consumers.

Scale Advantage

1. Acquisitions & rising total addressable market (TAM)

In 2017, Whole Foods was acquired for $13.7B to create Amazon Fresh, a grocery delivery and pickup service, to target the $1T US grocery market. Two years later, Amazon Fresh removed its $14.99 monthly fee and became free to Prime members, expanding to over 2,000 cities in the US. In 2020, Fresh opened its first chain of checkout-free experience grocery stores that can additionally serve as Amazon package return and pick-up sites. These unique features, along with integrated voice technology and the smart Dash Cart, all represent long-term points of differentiation from other big retailers.

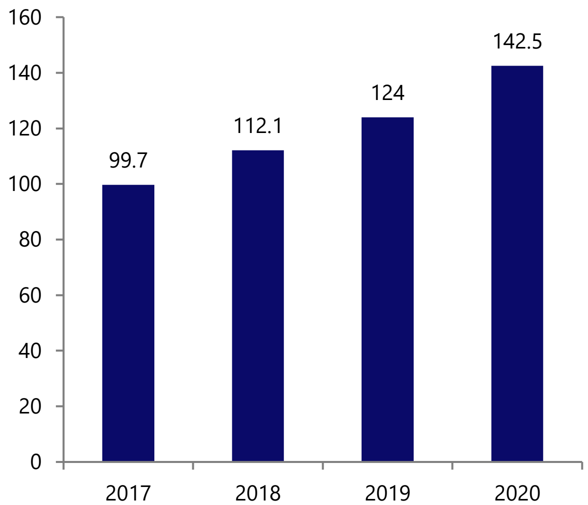
In 2018, the acquisition of PillPack, Haven Healthcare and Halo, unlocked an opportunity of over $1B in the retail pharmacy market. As 78% of US adults over 55 years have at least one chronic condition, Amazon can tap into the business of supporting the baby boomer population in managing their illnesses. Amazon Halo's wristband collects health data, which can then be used by healthcare companies such as John Hancock and Cerner to create personalized health (insurance) plans and lower the need for frequent health checkups. Moreover, Amazon Pharmacy allows consumers to mail-order their medicine; this delivery is believed to be more convenient than visiting the pharmacy routinely. Finally, Amazon Care specializes in primary care. Together, patients will not need to exit the Amazon ecosystem in order to manage healthcare—further strengthening Amazon's value proposition of convenience.

In all, Amazon's acquisitions into the healthcare and grocery spaces create additional scale advantages by leveraging partnerships, developing unique products and services, and constructing network effects. This ultimately allows Amazon to access opportunistic revenue streams and tighten customer loyalty over big-box retailers.

Retail Business - Competitive Advantages

EXHIBIT III

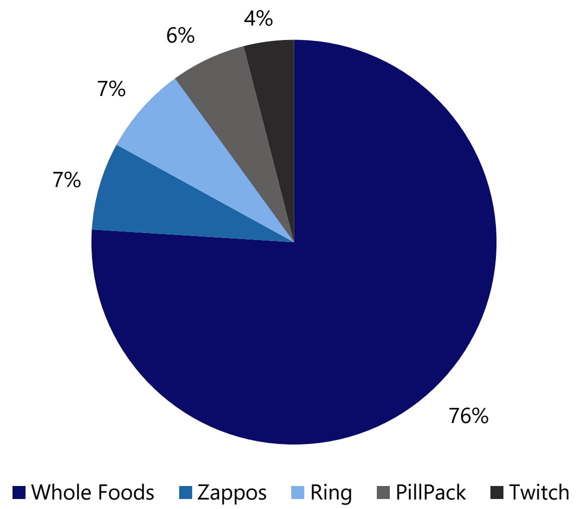
Amazon's Prime Membership Count (M)



Source(s): Statista

EXHIBIT IV

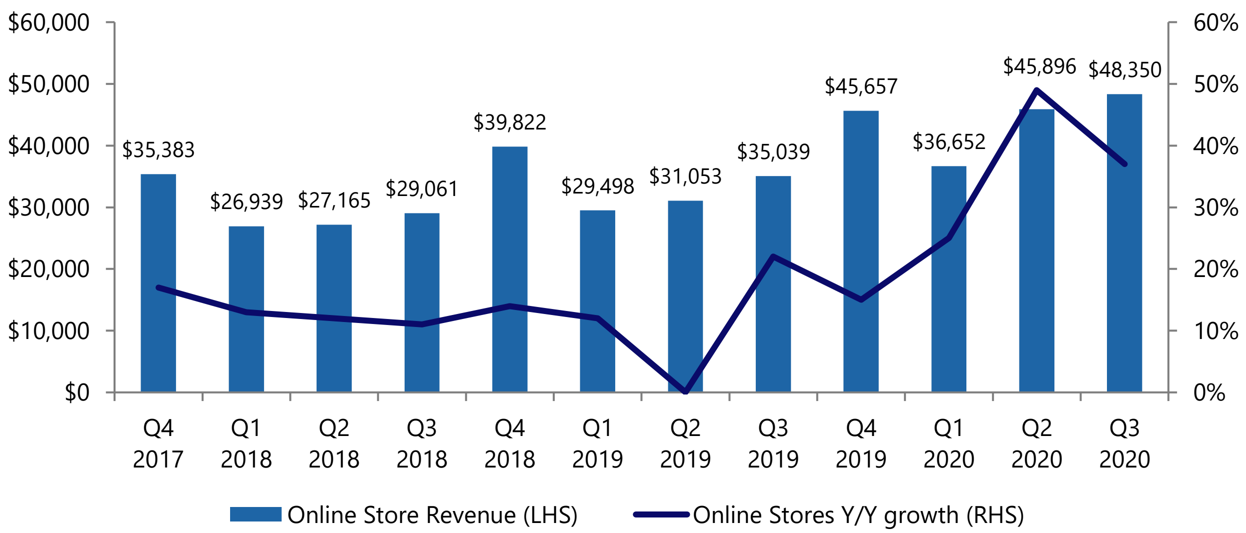
Amazon's Top 5 Acquisitions (%)



Source(s): CBInsights

EXHIBIT V

Amazon's Online stores ($USD M) and Growth (%)



Source(s): Company Filings

Retail Business - Competitive Advantages

2. Supply Chain Efficiencies

Amazon's distribution network includes fulfillment centers (items are picked, packed and shipped with the support of Amazon Robotics), non-sortable fulfillment centers (handles larger-sized objects), sortation centers (sorts packages by zip code), receivable centers (large orders of quickly sold inventory), specialty centers (special items or serviced at peak times) and delivery stations.

The expansion of its supply chain network allows for economies of scale that increase operational efficiencies and therefore, profitability. From 2018 to 2019, Amazon's employee count grew by 23% while its average days of inventory ratio decreased by 4.8%. This portrays that scaling the supply chain through employees correlates to a fewer number of days that the company needs to turn its inventory into sales.

Breaking Down the One-Day Shipping Advantage

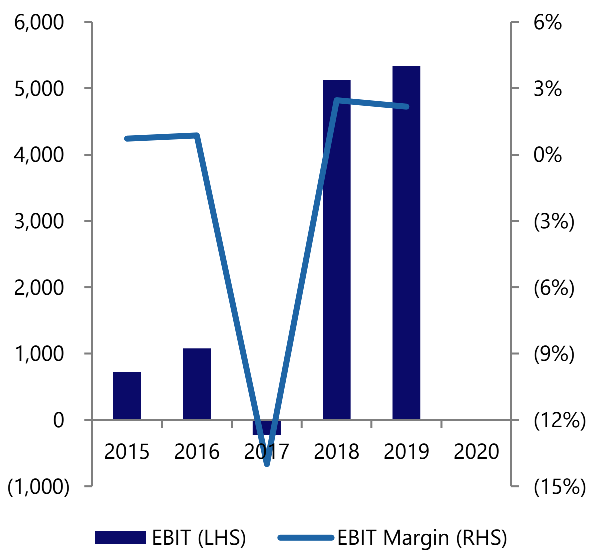
Although the one-day shipping policy furthers consumer trust and differentiates Amazon from other online retailers, this reveals a weakness in its supply chain.

In 2019, Amazon grew its paid units by 10% YoY in Q1 followed by 22% in Q3. However, with shipping cost growth increasing at a faster pace, Amazon was unable to achieve an accretive ROIC. To achieve a higher ROIC, Amazon's marginal sales must be greater than its marginal shipping costs and investments into fulfillment centers. Currently, Amazon has optimized all aspects of its distribution network except for the "last-mile delivery"— due to the least efficient part of the supply chain due to transportation's poor unit economics.

With that, Amazon still holds a competitive advantage in supply chain and operational efficiencies but must invest in its "last-mile delivery" to make its initiatives such as one-day shipping a true advantage.

EXHIBIT VI

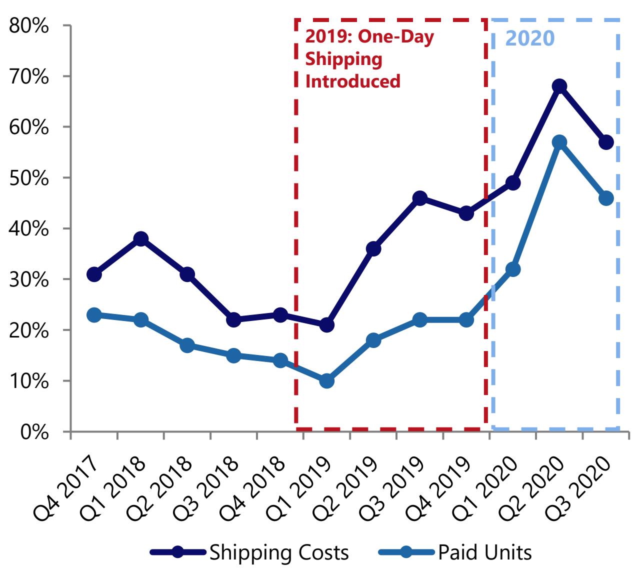
Amazon Retail EBIT Margin (%) & EBIT ($USD M)



Source(s): Company Filings

EXHIBIT VII

Amazon's Growth in Shipping Cost & Paid Units (%)



Source(s): Company Filings

Retail Business - Competitive Advantages

Network Effect

Amazon's renowned flywheel effect is structured as follows. Start with a low-cost structure platform that attracts customers through low prices. Higher customer traffic then attracts third-party sellers, thus increasing selection and also lowering the cost structure. This also reinforces the "downstream impact" of the lifetime value of a customer. For instance, once Prime members integrate Amazon Fresh into their lives, they will visit the site multiple times a week to purchase groceries. The frequent visits will result in the usage of other services such as Prime Video or Amazon Pharmacy— ultimately driving the conversion rate. Since grocery currently is not a source of profitability, Amazon is able to leverage the platform to position itself more heavily into its consumer's minds and indirectly influence the usage of other services. In turn, the horizontal and vertical network effect plays a large role in Amazon's growth.

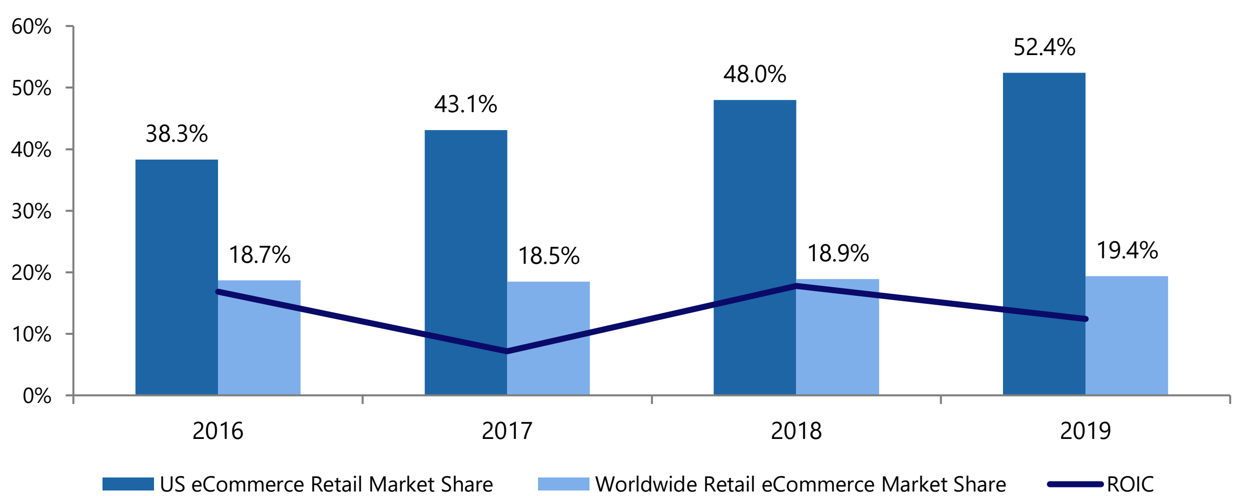
Impact on ROIC & Market Share

Since 2019, ROIC declined 9% and the international expansion of its retail business is likely to be the cause. In 2017, its international segment experienced an operating loss of $3B that destroyed all operating profit from its North American segment. The team hopes to see greater returns with improvements to Amazon's "last-mile delivery" distribution network and service expansion.

Amazon has also been capturing market share in the US eCommerce retail space at a CAGR of 8.1% at 52% in 2019. Worldwide, Amazon takes up 19% at a CAGR of 0.9%. In the U.S., Amazon's high consumer trust, breadth of services (particularly Amazon Fresh), supply chain efficiency, and flywheel effect have acted as tailwinds in its rapid national growth. However, outside of North America, other competitors have established a dominance in those areas prior to Amazon, indicated by the slow market share capture.

EXHIBIT VIII

Amazon's US & Worldwide Market Share, ROIC from 2016 to 2019 (%)



Source(s): Company Filings, Statista

Competition

Threats From Big Box Retailers

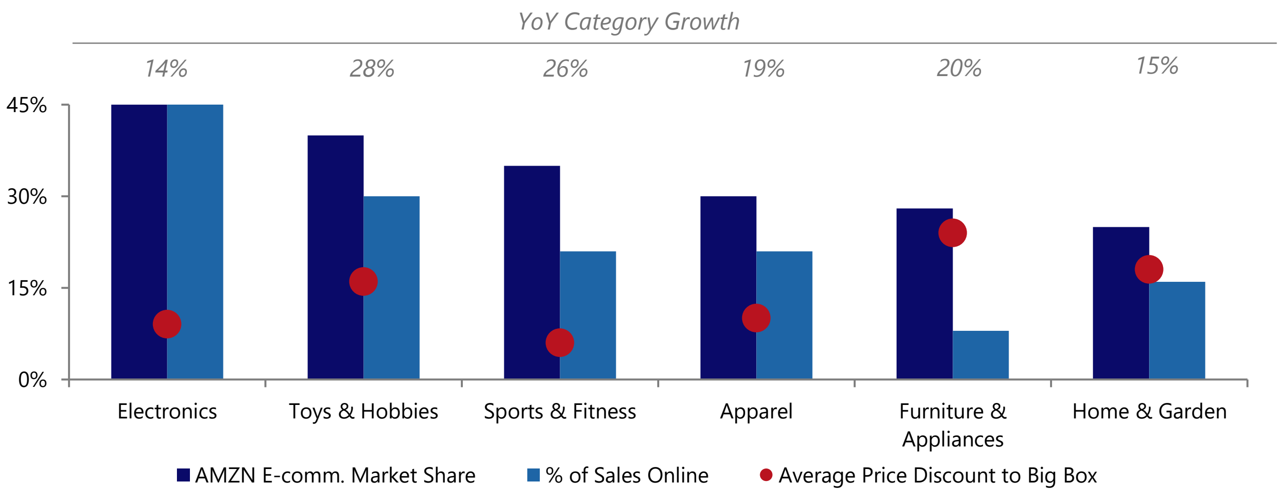
With over 50% of the U.S. e-commerce market in 2019, Amazon has unquestionably asserted its dominance among major retailers. However, against a relentless foe, brick-and-mortar competitors have a few tools in their kit to fight back. In several of the ultra-competitive retail sub-verticals, the Consumers team has identified strength in business models outside of Amazon's reach, such as dollar stores, luxury brands, and home improvement. Insulation in these businesses comes down to the two main considerations regarding online purchases: price and convenience. Amazon generally can't sell profitably at ultra-low prices, or ship large items, so overall e-commerce penetration is extremely low and it doesn't compete in those categories. However, selling general merchandise and food, traditional competitors such as Walmart, Target and Best Buy have been aggressively trying to match Amazon through reducing shipping times and offering lower prices.

Stores as Mini Distribution Centers

One of the biggest levers available to brick-and-mortar retailers to grow online sales is their physical proximity to customers. For big box stores with a strong footprint in urban areas, optimizing retail locations to function as fulfillment hubs has allowed for vastly decreased shipping times to compete with Amazon. Walmart has been the most committed to this strategy, boasting a leading 40 fulfillment centers amongst its peer group. After a rapid scaling to meet pandemic demand, both Walmart and Target can ship to the majority of the U.S. population in 2 days, and have a key advantage in grocery sales due to their penetration relative to Whole Foods. Retailers can also greatly increase their offering online, with Walmart offering 625x the amount of products online than in a store. Catalysed by the pandemic, it appears brick-and-mortar competitors have identified the last mile delivery weakness in Amazon's supply chain, and are making a push.

Exhibit IX

Amazon's Presence in Leading E-commerce Categories and Pricing Coming Into the Holidays



Source(s): Company Filings, J.P. Morgan, Profitero

Competition

Amazon's Defense: Logistics Investment

Despite the increased competition in shipping times, Amazon's bespoke distribution network truly does deliver an optimal customer experience. Since 2018, Amazon has grown its U.S. distribution network by over 160MM square feet, which is roughly the same as Walmart's distribution network growth over the past 50 years. Taking note of both steps by competition and its own weakness in last mile delivery, the company has directed significant effort to cutting costs through bringing delivery in-house. Bringing same day shipping in 2019 was a major innovation in the market, but brought increased costs to hamper the return on the investment. Through Amazon's delivery process, fulfillment centres efficiently receive, package, label, and send items entering the country to sortation centers, where they are then routed to delivery stations. This is where the "last-mile delivery" comes in, where until 2015, the company completely relied on third parties to complete the process. After continued investment, Amazon delivered ~50% of the packages it fulfilled in 2019, relying on USPS and UPS for the remaining. Trying to scale delivery times has come with growing pains, with an average of 15% of items arriving late in 2019, compared to 5% in 2017.

Pushed in part by the pandemic, the company directed increased attention to this weakness so far this year, and delivery stations are expected to grow 160% YoY, from 163 to 423, by the end of 2020. Now, Amazon expects to deliver 85% of all its packages, offering large cost savings and improvement of the unit economics. Moreover, Amazon's original virtuous cycle of taking advantage of failing department store and mall operator assets is flourishing, inking a new deal in August with Simon Property Group to begin replacing anchor stores with distribution hubs. To top it off, Amazon has other extremely profitable business lines, such as AWS, that provide a cushion for poor delivery performance in the short term – a luxury its brick-and-mortar competitors do not have. While the threats posed by Walmart and Target are real, the company seems to be fighting the battle head on. Coming into holiday season, Amazon still has substantial market share in the fastest growing and most penetrated categories (Exhibit IX), and can still offer more attractive sales than all traditional competitors.

Shopify and Online Store Providers

Facing intense competition from traditional brick-and-mortar businesses, Amazon must also contend with the rise of fully integrated e-commerce platforms that facilitate the swift creation of online stores. Here, the threat is to the supply side, giving merchants expanded choice of methods to sell their products. Amazon's primary offering to sellers is the widest available marketplace, where products will get the most exposure to customers and the added benefit of Fulfilled by Amazon (FBA). Traditionally, these businesses and Amazon wouldn't be competing in the same markets, but both are critically dependent on 3rd party sellers. Here, e-commerce platforms, namely Shopify, offer sellers a more personalized experience and allow them to ensure their products aren't lost in the mix of a larger platform. Another major benefit is that they don't have to compete with Amazon's own private labels, which undoubtedly get preference in marketing and AI suggestions.

However, where Amazon maintains a huge advantage is in fulfillment. Shopify entered the early stages of crafting their own service in 2019, but even now it is capped for businesses <2,000 SKUs and <10,000 daily orders. Some parts actually rely on FBA. In addition, merchants on Amazon benefit from the incredible network effects inherent to a platform – it's a destination. Nine out of every ten customers price check on Amazon when shopping online, benefitting existing well known brands who just want to drive volume. Together, it seems as if Shopify and similar businesses are great for SMBs looking to build an online presence, but won't steal the deep base of merchants of all sizes using Amazon.

Competition

(EXHIBIT X) Big Box Retailer Fulfillment Strategies

Big Box Retailer Fulfillment Strategies Comparison

Company Name	# of SKUs	# of Stores/Markets	Fee	Year Launched
Two-day Delivery				
Best Buy	Most items	Majority of continental U.S.	Free > $35	2020
Walmart	Millions of items	Continental U.S.	Free > $35 or WMT+	2017
Target	Non-food; majority of store	Continental U.S.	Free > $35 (incl. REDcard)	2018
Costco	Non-food via CostcoGrocery	Continental U.S.	Free > $75	2017
BJ's	Not available	-	-	-
Amazon	>100M items (29% of total)	Continental U.S.	Free w/ Prime - $119/yr	2005
Next-day Delivery				
Best Buy	Most items, exlc. TVs/appliances	60 metro areas	Free > $35	2020
Walmart	~300k items	75% of U.S. pop.	Free w/ WMT+	-
Target	Non-food; majority of store	Continental U.S.	Free > $35 (incl. REDcard)	2018
Costco	Not available	-	-	-
BJ's	Not available	-	-	-
Amazon	>10M items (~2.9% of total)	Continental U.S.	Free w/ Prime - $119/yr	2005
Buy Online, Pick Up in Stores (BOPIS)				
Best Buy	Most items	All	Free	2006
Walmart	General merch.	All	Free	2011
Target	Non-food	All	Free	2013
Costco	Luxury and electronic items	All	Free	2018
BJ's	All excl. perishables	All	Free	2018
Amazon	Most items	Amazon Hub Locker in 900+ cities	Free	2011
Curbside Pickup				
Best Buy	Most items	All	Free	2016
Walmart	Selective general merch.	~3,700 locations (69% of U.S.)	Free ($30 min., incl. WMT+)	2016
Target	In-store items	1,750 locations (92% of U.S.)	Free	2017
Costco	Not available	-	-	-
BJ's	Not available	-	-	-
Amazon	Grocery	150 Whole Foods stores	Free w/ Prime - $119/yr	2017
Same-day Delivery				
Best Buy	Most products	40 metro areas	$5.99/order	2020
Walmart	>160k items	~2700 stores (50% of U.S.)	-	-
Target	Available with Shipt	All	Free > $35 w/ $99/yr fee	2017
Costco	Not available	-	-	-
BJ's	Not available	-	-	-
Amazon	>3M items	>10k cities for Prime Now	Free w/ Prime - $119/yr	2015

While major competitors have introduced membership programs to compete with Prime, it is clear that Amazon has led the market in developing new offerings and providing unparalleled selection in every time frame

Amazon and Antitrust: I. Differing Views

United States: Current Regulations and Policies

Antitrust in the United States has gone through several phases. From the formative break-up of Standard Oil, to current discussions regarding the considerable power of "Big Tech" players such as Amazon, Apple, Facebook and Google, the discussion surrounding how best to implement competition regulations to ensure the effectiveness of the free market has been controversial. Currently, the Chicago-school of antitrust is the dominant voice in Washington. Popularized by Robert Bork in a book called *The Antitrust Paradox*, the Chicago school essentially argues that in order to successfully encourage competition, antitrust legislation should focus on protecting consumers. Previous to this, Bork argued that courts were focusing on the impact that actions would have on competitors. The overarching goal of consumer welfare defines modern antitrust law. Often, consumer welfare has been defined as short-term price effects and to a lesser extent, the degree of choice available to consumers.

The Neo-Brandeis School of Thought

The colossal size and power of Big Tech players has caused concern regarding the competitiveness of markets and thus the appropriateness of antitrust law. In 2017, Lina Khan published *Amazon's Antitrust Paradox* in the Yale Law Journal, which has reignited discussion and debate around antitrust legislation. While the Chicago school of thought may currently be the dominant force in antitrust, there are two new influential points of view which argue that the status quo is ineffective. The school of thought that Lina Khan popularized in her writing is named "Neo-Brandeisianism" (or "hipster antitrust" by its critics). Neo-Brandeisianism argues that consumer welfare is a measure ill-equipped for the modern marketplace. To this group, the internet has fundamentally changed the way in which antitrust should operate. Consumer data, the dynamics of platform businesses, uneven risk between e-commerce platforms and traditional retail business models and growing barriers to entry, among other factors, lead this group to believe that the current lens of antitrust: price and output, is too narrow. While Amazon's services are cheap, the additional "price" paid by consumers, their data, complicates this narrative. The dynamics of platform businesses allow Amazon to own a platform, operate this platform and compete and sell its products on the same platform. This allows the company to amass data from competitors' transactions, as well as its own. This allows the company to identify and exploit profitable opportunities for its own private label businesses, something the EU has alleged that the company is currently doing. As well, by operating the selling platform, Amazon could give preferential treatment to its own products versus competitors. This begs the question: how is this any different from a traditional retail store? A store like Costco for example owns, operates and competes in its stores, similar to Amazon. The difference here is competition and the distribution of risk. In terms of competition, consumers can decide to shop at Costco or they can go to Walmart, Kroeger, Walgreens, among a plethora of other options. Choices for consumers when searching for a comprehensive online platform is more limited. As well, there is the issue of risk. Costco purchases product from its competitors and then sells the product in its stores, where it may compete against Costco private label products. For the competitor, the risk of the product not being bought by the end consumer is transferred to Costco, after Costco purchases the product from the competitor. For Amazon, this is not the case. Competitors carry all of the risk that their product will not sell when they list it on Amazon. Like many retail stores, if a product is quite profitable, Amazon is likely to create a private label version of the offering. However, given the uneven distribution of risk on an online platform, this risk of private label competitors is much more impactful. Essentially, businesses listing on Amazon undertake the original risk and invest in a product in the hopes that it will be profitable. If they are correct rather than reap the benefits of their risk, Amazon can utilize its data, identify the profitable business, create their own offering and reap the reward of the other business' effort with little to no risk to itself. This could disincentivize businesses from investing in products

Amazon and Antitrust: I. Differing Views (Continued)

and bringing them to market. Last, there are growing barriers to entry for new entrants looking to compete against these tech titans. While platforms allow the proliferation of competition by granting businesses with access to a far larger number of consumers than would otherwise be possible, the megafirms created by the rise in technology have also generated substantial entry barriers for competitors. First, the hoards of data collected by tech titans allow these firms to individualize and improve their products and services. Second, the nature of digital business is that it is quite easy for incumbents to identify and copy what users like about a startup's offering and offer a similar product or service to its larger audience. For example, consider the recent creation of Instagram "Reels", a clear attempt to recreate the popularity of TikTok's short video offering. Third, there is the issue of predatory pricing. Amazon has become infamous for alleged predatory pricing strategies which may have resulted in the demise of competitors like Diapers.com. Last, incumbents have exhibited a pattern of buying new entrants before they exhibit a real competitive threat to incumbents. In the ten years leading up to 2019, the five largest technology firms acquired over 400 firms. Facebook's purchases of Instagram and WhatsApp are evidence of this trend.

Summary of the Neo-Brandeis School

Overall, the viewpoint of this group can be boiled down to the idea that there is a broader set of issues that are created from a lack of competition than solely impacts on prices. The argument goes that the manipulation that giant corporations are able to create in the marketplace can force out smaller business, worsen the economy for workers, citizens, and sometimes, consumers. Neo-Brandeisians do not believe in one firm exerting significant power over the economy. The concentration of market power in the hands of a few juggernauts has also been blamed for things like wage stagnation, rising inequality and political populism. Often, they see this as as much an economic issue as an issue of political liberty and democracy.

Implications of Neo-Brandeism for Amazon

This group generally proposes two main options for resolving this issue with respect to Amazon. First, the group says that you could hypothetically regulate part of the company like a utility. Utilities are required to allow access to their infrastructure on a nondiscriminatory basis. More dramatically, there are some calls for banning Amazon from simultaneously operating and selling on its platform. This would require Amazon to divest certain business segments.

Moderate Viewpoints

The third school of thought is more central than the Chicago or Neo-Brandeis schools of thought. Essentially, this more moderate group would like to reinterpret the consumer-welfare standard. Ideally, they would like to see the incorporation of all the harm that anti-competitive practices might do to consumer welfare in antitrust discussions. They accept that some firms will naturally grow large, limiting competition in the market. However, they would like to ensure that new entrants still have the ability to disrupt the status quo. The manifestations of this viewpoint could include things like: blocking more acquisitions of early-stage firms, sharing some data with new entrants or making it easier for consumers to switch between platforms. Obviously, while these kinds of changes would be negative for Amazon, they should not be nearly as destructive for the company as the suggestions of the Neo-Brandeis School.

Amazon and Antitrust: II. Implications for Equity Holders

If the status-quo Chicago school is usurped or altered by these alternative antitrust movements, the implications on Amazon's business model could be dire. Therefore, the Consumers team decided to analyze some of the potential outcomes of a disruption of the status-quo of antitrust.

Implications of the Neo-Brandeis Antitrust Recommendations

The Neo-Brandeisian school generally supports two courses of action with respect to Amazon: (1) divestiture so that the company cannot both sell on and operate its retail platform or (2) the imposition of regulations which would ensure that Amazon afforded companies with nondiscriminatory access to its platform. The implications of these alternative courses of actions for Amazon's equity holders is considerable.

An Amazon Break-Up

A break-up of Amazon is an interesting idea for equity holders. The Standard Oil break-up made John D. Rockefeller's wealth expand so dramatically that it became a running joke. Would Amazon's equity holders be as fortunate if the tech-giant were to be broken up? The short answer is probably not. Standard Oil could be considered in many ways, to be the antithesis of Amazon, apart from their dominance in their respective markets and enigmatic leaders. Standard Oil was a massively profitable company that had issues with effectively allocating capital. Amazon, while limited in its profitability, is gifted in capital allocation. So, in Standard Oil's case, the break-up separated profitable business segments from poor capital allocators and thereby increased the company's growth prospects. A strong example of this is the Indiana branch of Standard Oil. This division consistently requested that headquarters allow them to invest in the notion that oil could be refined into gasoline. This request was repeatedly denied by headquarters. After the break-up, the Indiana branch, free of the restraints of headquarters, developed the technology behind the gasoline industry. In Amazon's case, separating businesses which are, for the most part, of limited profitability from management with a strong history of capital allocation and dramatic growth, would surely lead to the depreciation of investor wealth. Currently, AWS, a profitable segment of Amazon's core business, helps to fund less profitable segments. Moreover, as is so accurately described by those advocating for a break-up, Amazon's businesses reinforce one another. Network effects, the sharing of consumer data between business units, consumer switching costs, economies of scale and complementary business capabilities, all help to ensure that Amazon as a whole is greater than the sum of its parts.

EXHIBIT XI

Rockefeller's Dramatic Wealth Appreciation after Standard Oil was Broken Up was Enviable

“No wonder that Wall Street's prayer now is: 'Oh Merciful Providence, give us another dissolution” – Teddy Roosevelt

Source(s): Wall Street Journal

Nondiscriminatory access to Amazon's Platform

Providing nondiscriminatory access to Amazon's platform would be less detrimental to equity holders. It is challenging to determine the degree to which this would affect the company's prospects as there are conflicting reports regarding the degree to which Amazon actually discriminates between its own and

Amazon and Antitrust: II. Implications for Equity Holders (Continued)

seller's products. As well, there are a plethora of different forms that nondiscrimination regulation could take, which limits the ability to analyze their possible effects of the business.

Regardless, what is clear is that these regulations will be designed to limit Amazon's dominance by restricting the tools and practices it can implement in its business. This cannot be good for equity holders. Luckily, the Consumers team has considerable confidence in Amazon's management team to mitigate the effects on its business to the greatest degree possible. Regardless, it would be naïve to think that Amazon's growth prospects and economic moats would be unincumbered by regulations designed to impede the company's competitive position.

Implications of Moderate Recommendations

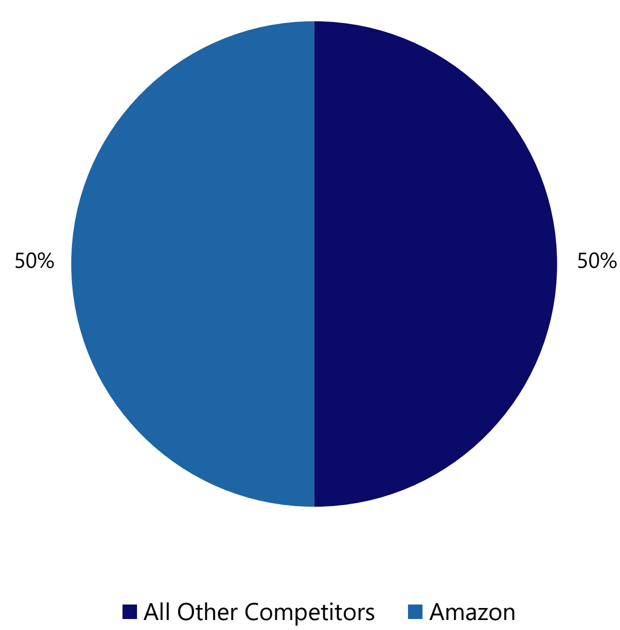
Moderate recommendations focus more on stimulating new competition, rather than restricting Amazon's competitiveness. It is likely that any practices regarding acquiring early-stage competitors or alleged instances of predatory pricing would come under severe scrutiny. As well, it is possible that Amazon could be required to share some of its data with competitors, thereby lowering entry barriers into the industry. This kind of regulation would likely be the least impactful to Amazon's prospects in the short-term. However, this regulation is designed to breed a more competitive marketplace. Over the long-term, this could result in considerable threats to Amazon's competitive position. Luckily, the Consumers team would have time to identify and evaluate any competitive threats to Amazon as they would not appear overnight. If these kinds of regulations were enforced, the Consumers team would have to be cognizant of this threat and evaluate competitors continuously and closely. Again, the Consumers team has confidence in Amazon's management to limit these competitive threats by remaining innovative and continuing to provide superior service and offerings to customers.

Current State of U.S. Antitrust Talks

The House Judiciary subcommittee on antitrust released a report in early October saying that Amazon's dominance in e-commerce gives it monopoly power over third-party sellers on its platform. Recommendations provided by the subcommittee include: splitting Amazon's different business units and forcing the company to prove that any mergers would be pro-competitive before they are allowed to conclude. The report argued that AWS and the firm's retail business represent a conflict of interest. Additionally, concerns were raised about Amazon's growing shipping and fulfillment business raising entry barriers. The company has been hit with

EXHIBIT XII

Amazon's Market Share of E-Commerce Sales (U.S.)



Source(s): CNBC

Amazon and Antitrust: II. Implications for Equity Holders (Continued)

other allegations, including predatory pricing. Amazon has vehemently disputed these findings. Now that Biden has been elected, the path forward for antitrust regulation is unclear. Biden did not discuss the idea of regulating Big Tech very much on the campaign trail. As well, the makeup of Biden's cabinet is uncertain. So, the future of Big Tech regulation in the U.S. has yet to be determined. What is clear, however, is that the U.S. government is placing Big Tech under a great degree of scrutiny, that was perhaps last experienced by Microsoft. The dramatic developments in the U.S. antitrust debate in the past few years suggest that this issue is far from over, regardless of what kind of regulations this presidency brings.

Big Tech & Europe

The issue for Amazon of antitrust rules and regulations is much more immediate in Europe. EU regulators are in the process of creating a "hit list" of up to 20 large internet companies that will be subject to new and much more stringent rules designed to limit these companies' market power. These large firms will face tougher regulation than their smaller competitors. It is likely that these rules will force Big Tech to share data with rivals and be more transparent with their data gathering practices. This radical step comes as regulators have begun to question the effectiveness of fines as a means of deterring anti-competitive behaviour. Fines seem to be considered as "costs of doing business" rather than strong disincentives from anti-competitive practices. In extreme cases, it is possible that the EU will act to break up Big Tech. The culmination of this work will be the Digital Services Act, due to be presented in early December. Furthermore, last week, the EU hit Amazon with antitrust charges over its treatment of European merchants selling goods through its website. The crux of the issue is that the EU alleges that Amazon breached its competition rules by using non-public data from sales on its platform to boost its own private label sales. There is an ongoing second antitrust investigation into whether Amazon gives preferential treatment to its own products and to those sellers who pay extra for Amazon's logistics and delivery services. The success or failure of the EU's case hinges on whether they can show that Amazon is an indispensable channel for sellers and that Amazon's conduct drives sellers out of the market.

Conclusion

Growing scrutiny over Big Tech and its market power is bound to create a less hospitable environment for Amazon. The environment in the U.S. will likely remain more lightly regulated than its European counterparts. However, even in the supposed beacon of free market capitalism, Amazon is unlikely to escape increased regulation for long. The growing discourse around moderate and Neo-Brandeisian reform exemplifies this fact. In Europe, Amazon faces a more immediate and certain risk. It is highly likely that the company's competitive position in Europe will be hindered by new and strict regulations designed to create a more competitive marketplace.

Retail Business Valuation Summary

QUIC values Amazon's retail business using a back-of-the-envelope, IRR-based approach. Like most retailers, the core value drivers for Amazon are sales volume and margin expansion.

We project overall retail sales growth of 36% in FY2020 due to the the strong demand for online shopping amidst the COVID pandemic. North America EBIT margins are expected to decrease slightly year-over-year due to increased COVID-related expenses, while International EBIT margins are expected to be positive by ~50bps due to higher fixed cost absorption.

Looking out over our 10 year projection period, we forecast gradually decreasing North America revenue growth and gradually increasing North America EBIT margins. We expect EBIT margins to rise above 7% by 2030 due to a lower investment rate and the growth of higher-margin business lines, namely advertising.

We also forecast gradually decreasing revenue and gradually increasing EBIT margins in the International segment as the business scales in key European markets as well as Japan. We expect EBIT margins to rise above 5% by 2030, which we believe reflects a necessarily higher investment rate in these markets.

Assuming that Amazon maintains constant market share, these revenue growth rates imply 45% e-commerce penetration in North America and 34% e-commerce penetration internationally by 2030. This compares to 2019 penetration rates of 11% and 8%, respectively. We believe that Amazon will be able to maintain its market-leading position, but acknowledge that there are many formidable competitors (i.e. Facebook, Shopify, Instacart, Walmart, Costco) that will challenge Amazon over the next decade. For this reason, we do not think that Amazon will continue to steal vast amounts of market share, and thus we are relatively confident in the overall e-commerce growth assumptions implied by our model.

Our model arrives at a target value of of ~$1.7T for Amazon's retail business by 2030. This is driven by 2030 revenue of $1.042T and a 6.67% EBIT margin. We apply a 25x EBIT multiple to arrive at our valuation, which, assuming a 21% tax rate, would imply a bottom-line earnings multiple in the low 30s.

For a business of Amazon's quality, we deem this to be a fair price given how mature the company will be 10 years from now.

Amazon Retail Business Summary

(Figures in $US Millions)	Historical Period					Projection Period										
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
North America Revenue	63,708	79,785	106,110	141,366	170,773	234,693	272,244	313,081	356,912	403,311	451,708	501,396	551,536	601,174	649,268	694,716
% Growth	*15%*	*25%*	*33%*	*33%*	*21%*	*37%*	*16%*	*15%*	*14%*	*13%*	*12%*	*11%*	*10%*	*9%*	*8%*	*7%*
International Revenue	35,418	43,983	54,297	65,866	74,723	98,258	115,945	135,655	157,360	180,964	206,299	233,118	261,092	289,813	318,794	347,485
% Growth	*6%*	*24%*	*23%*	*21%*	*13%*	*31%*	*18%*	*17%*	*16%*	*15%*	*14%*	*13%*	*12%*	*11%*	*10%*	*9%*
Consolidated Retail Revenue	**99,126**	**123,768**	**160,407**	**207,232**	**245,496**	**332,952**	**388,189**	**448,736**	**514,272**	**584,275**	**658,007**	**734,514**	**812,628**	**890,986**	**968,062**	**1,042,202**
% Growth	*11%*	*25%*	*30%*	*29%*	*18%*	*36%*	*17%*	*16%*	*15%*	*14%*	*13%*	*12%*	*11%*	*10%*	*9%*	*8%*
North America EBIT	1,425	2,361	2,837	7,267	7,033	8,318	13,612	16,437	19,630	23,190	27,102	31,337	35,850	40,579	45,449	50,367
% Margin	*2.24%*	*2.96%*	*2.67%*	*5.14%*	*4.12%*	*3.54%*	*5.00%*	*5.25%*	*5.50%*	*5.75%*	*6.00%*	*6.25%*	*6.50%*	*6.75%*	*7.00%*	*7.25%*
International EBIT	(699)	(1,283)	(3,062)	(2,142)	(1,693)	521	1,159	2,035	3,147	4,524	6,189	8,159	10,444	13,042	15,940	19,112
% Margin	*-1.97%*	*-2.92%*	*-5.64%*	*-3.25%*	*-2.27%*	*0.53%*	*1.00%*	*1.50%*	*2.00%*	*2.50%*	*3.00%*	*3.50%*	*4.00%*	*4.50%*	*5.00%*	*5.50%*
Consolidated Retail EBIT	**726**	**1,078**	**(225)**	**5,125**	**5,340**	**8,839**	**14,772**	**18,472**	**22,777**	**27,714**	**33,291**	**39,496**	**46,294**	**53,621**	**61,388**	**69,479**
% Margin	*0.73%*	*0.87%*	*-0.14%*	*2.47%*	*2.18%*	*2.65%*	*3.81%*	*4.12%*	*4.43%*	*4.74%*	*5.06%*	*5.38%*	*5.70%*	*6.02%*	*6.34%*	*6.67%*

2030 EBIT Multiple	25x
Amazon Retail Business Value ($US Millions)	**1,737**

Implied 2030 U.S. E-Comm Penetration Assuming Constant Amazon Market Share	45%
2019 U.S. E-Comm Penetration	11%
2020 Post-COVID U.S. E-Comm Penetration	20-35%

Implied 2030 Global (Ex-China) E-Comm Penetration Assuming Constant Amazon Market Share	34%
2019 Global (Ex-China) E-Comm Penetration	8%
2020 Post-COVID Global (Ex-China) E-Comm Penetration	TBD

Source(s): Company Filings, Sanford Bernstein, McKinsey & Co.

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