St. John's University
Student Managed Investment Fund (Graduate)

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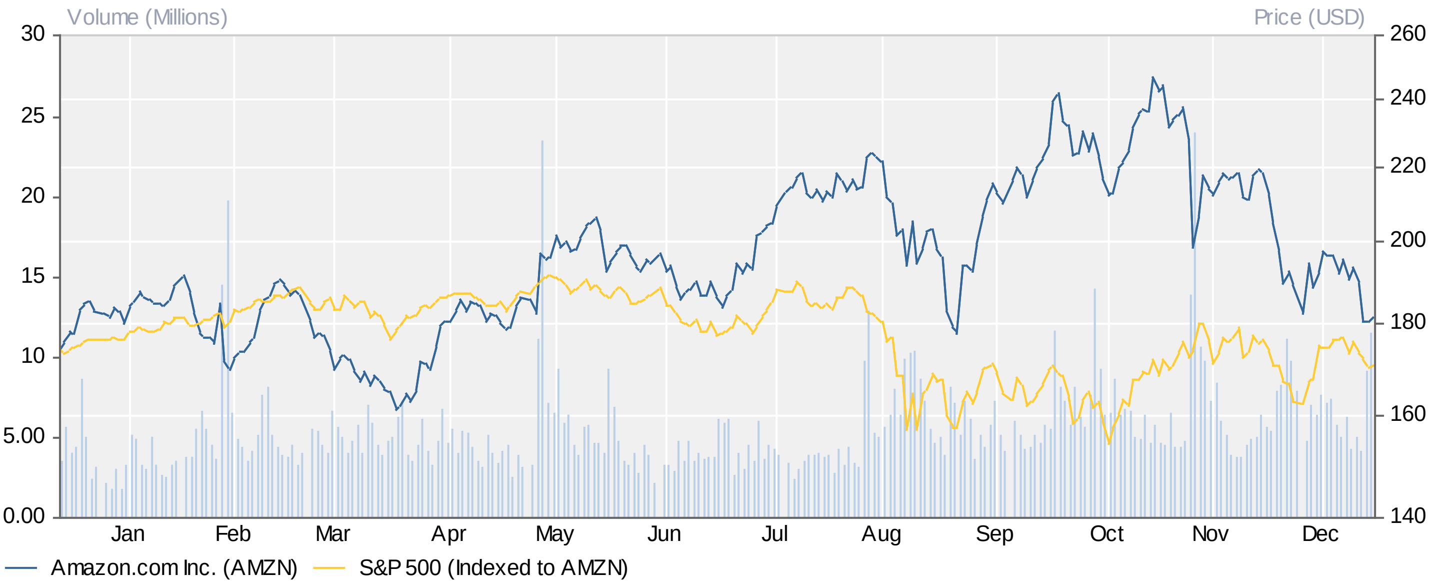
Yu Zhong
Don Delima



$181.93 +1.72 (1.0%)

Volume	4,369,908
Shares Out	455M
Market Value	82.7B
P/E	95.8x
Trade Hist.	15-May-97 to 14-Dec-11

Days Range	179.53 - 184.80
52 Week Range	160.59 - 246.71
Open	182.05
Previous Close	180.21
Short Int (% of Fl)	2.6%

Source: FactSet (as of 12/15/2011)

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I. EXECUTIVE SUMMARY

- **BUY recommendation based primarily on our FCFE model:** Our two-stage Free Cash Flow to Equity model, based on a cost of equity of 10.83%, initial growth of 25% and a terminal growth of 7% annually, yield a price of 212.81, a premium of 10.3% to the stock's current price. We believe that the current price is undermined by the temporary situation of the market and do not fully represent the potential of the company.
- **Strong financial position:** With minimal debt and a good cash position on its balance sheet, Amazon stands out with its ability to finance its operation from operating cash flow alone. With its excess resources, the company can further invest in research and development of new products and services or make strategic acquisitions. In addition, Amazon has been approved for a $2 billion share buy-back program which may increases the stock price if it is implemented.
- **Leading position in e-retail sector:** Our investigation of Amazon Inc.'s products and services revealed the company's superior position compared to other e-retailers. The company business is well diversified and fast growing. From 2002 to 2011, Amazon's sale growth rate of 32.3% is far above the industry average of 9.9% and competitors such as EBAY of 28.5%. In our custom industry group, Amazon's market share has been increasing significantly from 9.3% in 2006 to 27.8% in 2011.
- **Blitz sale of new Kindle Fire:** Following the success of Kindle e-readers in previous years, Amazon is expected to sell 3.9 million new Kindle Fires by the end of 2011 which will position this product as the #2 highest selling Tablet behind iPad[1]. We expect the sale of services and software related to Tablet and e-reader will significantly boost the growth of Amazon in the next few years.

II. COMPANY OVERVIEW

Amazon.com, Inc. (AMAZON) was founded in 1994 and is headquartered in Seattle, Washington. It opened its virtual doors on the World Wide Web in July 1995 and offers Earth's Biggest Selection. They seek to be Earth's most customer-centric company for three primary customer sets: consumers, sellers, and enterprises. In addition, they generate revenue through other marketing and promotional services, such as online advertising, and co-branded credit card agreements. Their operations are organized into two principal segments: North America and International.

Consumers

Amazon provides a retail website to customers and focuses on selection, price, and convenience. Amazon sells many unique products by itself and by third parties across varying product lines. They also manufacture and sell the Kindle e-reader. Amazon tries to offer the lowest prices possible. The company also provides free shipping, including through membership in Amazon Prime, a membership service that allows express shipping and access to a vast collection of books, movies, and TV shows at a price of an annual fee. Along with its customer support, Amazon's services are easy, fast and reliable.

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[1] http://www.isuppli.com/Display-Materials-and-Systems/News/Pages/Red-Hot-Kindle-Fire-Blazes-its-Way-to-Second-Place-in-Media-Tablet-Market.aspx

Sellers

Amazon provides programs to the sellers to sell their products on their websites and their own branded websites. They could earn some fees through those sellers programs.

Enterprises

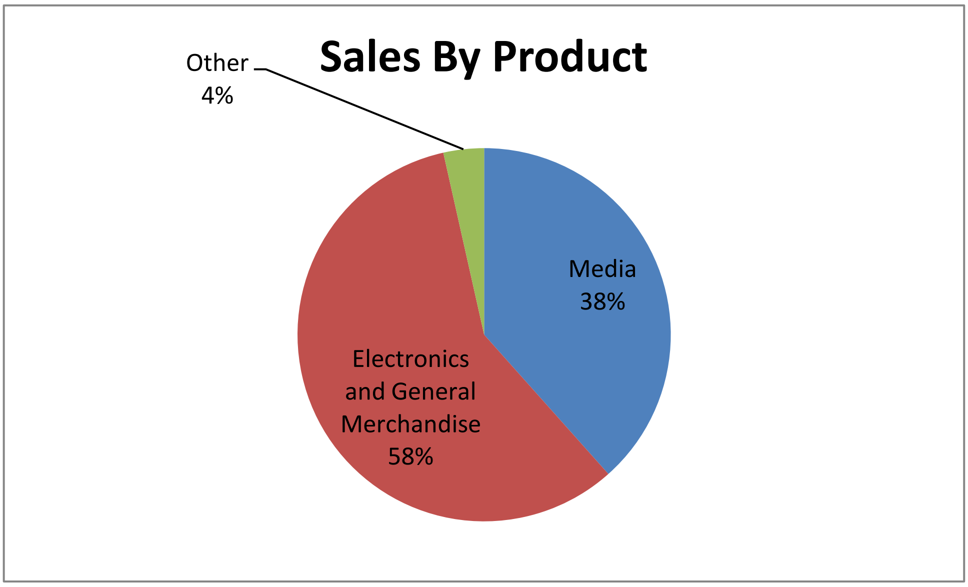
The company serves developers and enterprises of all sizes through Amazon Web Services ("AWS"), which provides access to technology infrastructure that enables virtually any type of business. Amazon employs approximately 33,700 full-time and part-time employees as of December 31st, 2010. However, the quantity of employees is not sustained because of the seasonal factors. Amazon's business is affected by seasonality. The company's fourth quarter revenues from 2008 to 2010 accounted for 35%, 39% and 38% of annual revenue for those years, respectively.

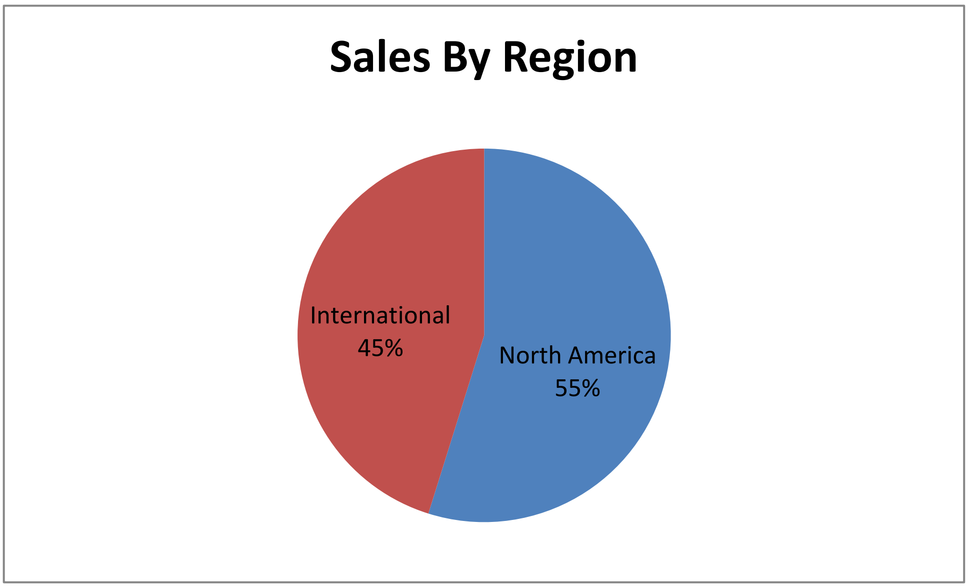
Products

Amazon sells a wide array of products. In its product department webpage, the company categorizes its merchandise relative to downloadable videos, music and mp3 files, cloud computing, Kindle, Android applications, video games and software, paper, electronic and audio books, DVD and Blu-ray movies, computers and electronics, home and gardening, groceries, cosmetics, toys, clothes and sporting goods

Business Segments

The below charts represent the business segment sales and the geographic segment sales for Amazon. Based on its third quarter report for 2011, the graphs below display the sale segmentation by product and by region





Business Strategy

Amazon has a portfolio of investments including their core e-commerce offering by category, they have third-party selling, a cloud computing business segment, and they have even have their own growing consumer electronics business (Cagan). They work to provide customers with "easy-to-use functionality, fast and reliable fulfillment, timely customer service, feature rich content, and a trusted transaction environment" (SEC filing). In their 2010 Annual Report, Jeff Bezos, Amazon's founder and CEO, mentioned that technology become more and more important to supporting their business.

> "Look inside a current textbook on software architecture, and you'll find few patterns that we don't apply at Amazon. We use high-performance transactions systems, complex rendering and object caching, workflow and queuing systems, business intelligence and data analytics, machine learning and pattern recognition, neural networks and probabilistic decision making, and a wide variety of other techniques. And while many of our systems are based on the latest in computer science research, this often hasn't been sufficient: our architects and engineers have had to advance research in directions that no academic had yet taken. Many of the problems we face have no textbook solutions, and so we — happily — invent new approaches"… All the effort we put into technology might not matter that much if we kept technology off to the side in some sort of R&D department, but we don't take that approach. Technology infuses all of our teams, all of our processes, our decision-making, and our approach to innovation in each of our businesses. It is deeply integrated into everything we do" (Amazon 2010 10-K Filing).

Kindle Fire has been a very good example of their business strategy. They also use a lot of marketing strategies to earn their market share, such as lowering their newest basic Kindle price to $79 even though they know they are selling the basic Kindle "at a loss of about one-quarter its list price and at painfully low margins because it is an efficient point-of-sale storefront in its expansive connected e-retail ecosystem" (Mermigas).

Recent News

News from *Wall St. Cheat Sheet* report that "Tech Business Weekly Recap: Verizon Disrupts Telecom, Amazon and Apple's Tablet Battle" recently. AMAZON reports Kindle sales increased 4X over last year's

Black Friday. However its e-readers are selling at a loss in order to gain content customers. What's more, it is also reported that Kindle Fire contract manufacturer Quanta has reportedly shipped 3M-4M units of the tablet thus far, and expects shipments to reach 5M by late December or early January. It is also reported that the pre-orders for Kindle Fire are already topping Amazon's online electronics offerings. Also, AMAZON's CEO Jeff Bezos said that the Kindle Fire is "a service" that provides "seamless integration" to all things AMAZON for the world's largest online retailer. Kindle Fire strategy clearly helps to protect the media-related sales that generate more than 30% of AMAZON's revenue (Mermigas).

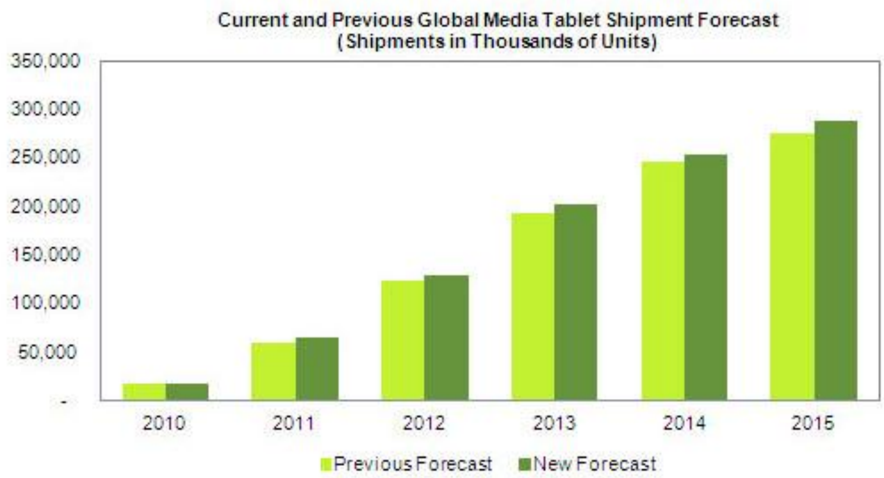
News from *Seeking Alpha* reports that Amazon's Kindle Fire jumps to second place in favored tablet PCs. The following is a chart that tracks unit shipments of different electronic devices. The Kindle Fire is the #2 selling tablet behind iPad.

Preliminary Estimated Global Ranking of the Top 5 Media Tablet Brands in the Fourth Quarter of 2011 (Ranking by Unit Shipments in Thousands)

Q4 2011 Rank	Brand	Estimated Q4 2011 Shipments	Estimated Q4 2011 Market Share	Q3 2011 Shipments	Q3 2011 Market Share	Sequential Growth
1	Apple	18,598	65.6%	11,123	69.7%	67.2%
2	Amazon	3,900	13.8%	0	0.0%	NA
3	Samsung	1,370	4.8%	1,250	7.8%	9.6%
4	Barnes & Noble	1,320	4.7%	750	4.7%	76.0%
5	HTC	355	1.3%	253	1.6%	40.3%
	Others	**2,800**	**4.6%**	**2,582**	**4.3%**	**90.0%**
	Total	**28,343**	**100.0%**	**15,958**	**100.0%**	**77.6%**

Source: IHS iSuppli December 2011

Amazon went from a 0% share in Q3 to a forecasted 13.8% unit in Q4 of 2011. Some people think that the price is the key to its success. However, the power of Amazon's software and ecosystem (e-books, music, movies, shopping) are other important factors that lead to higher Kindle Fire sales figures. Few companies have the ecosystem as Amazon. Additionally, with the Kindle Fire entering the tablet PC foray, forecasts for future global tablet shipments have been altered (See chart below)



Source: Seeking Alpha

In other news, the Wall Street Journal reported that Google may offer a service similar to Amazon Prime. Specifically, it aims to offer a one-day delivery service through its own online retail store, but would rely on third-party vendors to actually complete the order.

Executive Officers and Directors

Executive Officers
Jeffrey P. Bezos: President, Chief Executive Officer, and Chairman of the Board
Jeffrey M. Blackburn: Senior Vice President, Business Development
Sebastian J. Gunningham: Senior Vice President, Seller Services
Andrew R. Jassy: Senior Vice President, Web Services
Steven Kessel: Senior Vice President, Worldwide Digital Media
Marc A. Onetto: Senior Vice President, Worldwide Operations
Diego Piacentini: Senior Vice President, International Retail
Shelley L. Reynolds: Vice President, Worldwide Controller, and Principal Accounting Officer
Thomas J. Szkutak: Senior Vice President and Chief Financial Officer
H. Brian Valentine: Senior Vice President, Ecommerce Platform
Jeffrey A. Wilke: Senior Vice President, North America Retail
L. Michelle Wilson: Senior Vice President, General Counsel, and Secretary

Board of Directors
Jeffrey P. Bezos: President, Chief Executive Officer, and Chairman of the Board
Tom A. Alberg: Managing Director, Madrona Venture Group
John Seely Brown: Visiting Scholar and Advisor to the Provost, University of Southern California
William B. Gordon: Partner, Kleiner Perkins Caufield & Byers
Alain Monié: Chief Executive Officer, APRIL Pte. Ltd.
Jonathan J. Rubinstein: Senior Vice President and General Manager, Palm Global Business Unit, Hewlett-Packard Company
Thomas O. Ryder: Retired, Former Chairman, Reader's Digest Association, Inc.
Patricia Q. Stonesifer: Chair, Board of Regents, Smithsonian Institution

III. INDUSTRY ANALYSIS

Rivalry

The company is confronted by aggressive competition of its business. According to its 2010 annual report, current and potential competitors include:

1) Physical-world retailers, publishers, vendors, distributors, manufacturers, and producers of their products;
2) Other online e-commerce and mobile e-commerce sites, including sites that sell or distribute digital content;
3) A number of indirect competitors, including media companies, web portals, comparison shopping websites, and web search engines, either directly or in collaboration with other retailers;

4) Companies that provide e-commerce services, including website development, fulfillment, and customer service;
5) Companies that provide infrastructure web services or other information storage or computing services or products; and
6) Companies that design, manufacture, market, or sell digital media devices (Amazon 2010 10-K Filing).

Amazon's competitive factors are determined by selection, price, and convenience, including fast and trustful fulfillment. Additional competitive factors for seller and enterprise services are determined by the quality, speed, and reliability of its services and tools. Amazon is in a very intense competition even outside of the United States. As new products such as Kindle are coming to the market, opposition from industry rivals will become fierce.

Threat of New Entrants

In terms of online retail, Amazon is one of, if not the top, leading company in the industry. New entrants in this area would not realistically pose a significant danger to the company's fiscal health due to its brand recognition, industry position and its array of products available to consumers.

Threat of Substitute Products

Amazon has been a major innovator in e-commerce because it consistently is on the lookout for potential problems that need to be fixed in its website and e-readers. Also, according to an interview with the technology magazine, Wired, CEO Jeff Bezos always takes a long-term approach to running Amazon and mentions that the company is always looking for new ways to incorporate the latest trends, such as social media, into the company's business model. What can be inferred is that new retail websites may always appear on the Internet, but Amazon will always be one step ahead of them. Furthermore, Amazon's webhosting services eliminate potential maintenance costs for companies that want to gain an online presence since the company implements a cloud computing platform. This translates to less investment in information technology, such as additional servers, for those companies. Currently, Amazon hosts well-know websites like Foursquare, Netflix and Yelp (Wired).

As for its e-readers, Amazon faces competition from other companies' products, such as Barnes and Noble's Nook, Sony's Reader and Apple's iPad. The iPad is the only realistic threat here, given that both it and the Kindle Fire, Amazon's latest e-reader that also functions as a tablet PC, serve multiple functions, such as web browsing, music and movies. However, the iPad's appeal comes from its unique operating system, built-in camera, Bluetooth capability and high storage capacity. The Kindle Fire lacks these features, though Bezos states that this was intentional because the whole point of the Kindle Fire is to enable users to access Amazon's near infinite amount of content on its servers at a lower price. This falls in line with the company's current business strategy.

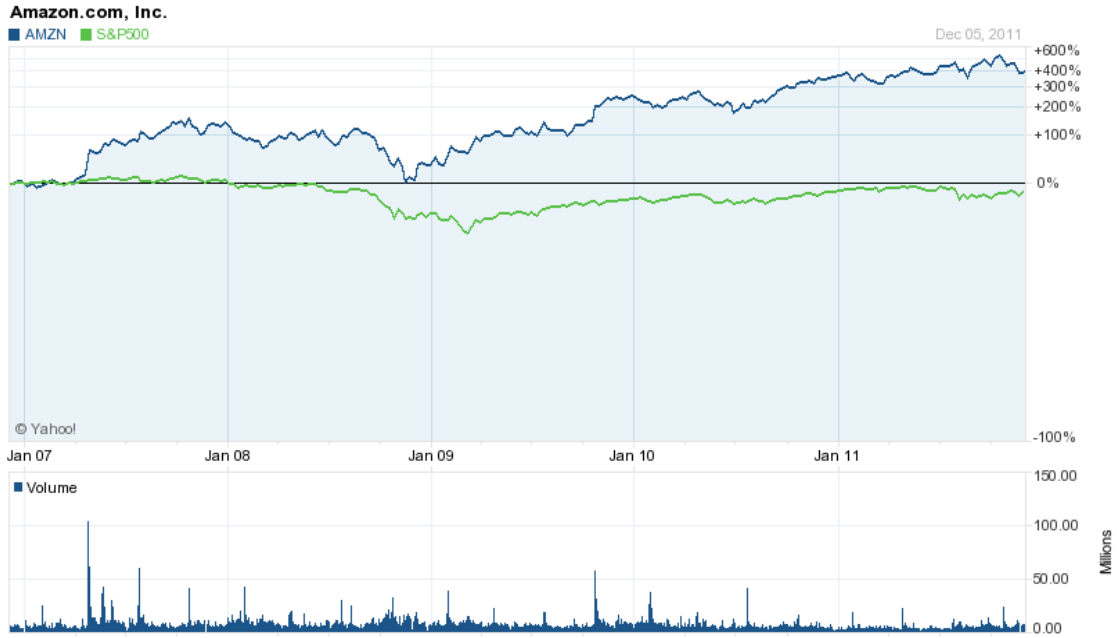
Bargaining Power of Suppliers

The fact that Amazon has such a large presence in the e-commerce realm would mean that any company that sells its products through the website will have a good chance of being spotted by consumers that do a general Internet search for that item. As such, relations between Amazon and its suppliers are generally favorable. In return for discounts for buying wholesale, Amazon usually pays its suppliers on schedule.

However, Amazon would have to negotiate with current and potential suppliers for licensing rights to some premium content, such as movies that were released 3 months prior or TV episodes that debuted last week. Additionally, should suppliers face bankruptcy or want to cancel any business agreements they have with Amazon, and it cannot find alternatives to replace those gaps, then the company's performance can be hindered.

Bargaining Power of Buyer Forces

With low prices and the company's constant aim to improve and ensure smooth transactions and how consumers shop on its website, buyers or customers realistically have little to no demands to make to Amazon. The American Customer Satisfaction Index rates Amazon as a leader in customer satisfaction from 2000 to 2010 (ASCI). comScore reports that 50,000,000 American consumers shopped online on Black Friday of this year, with Amazon as the most visited site (comScore). When combined with Amazon's recent Kindle sales, it's implied that buyers are happy overall with the online retailer.



The price return chart above compares the S&P500 (green line) and Amazon (blue line) for a five years period on a daily basis. The chart shows that the Amazon is outperforming the market. Furthermore, during the time that S&P 500 was below the 0%, the price trend for Amazon was still going up.

IV. FUNDAMENTAL ANALYSIS

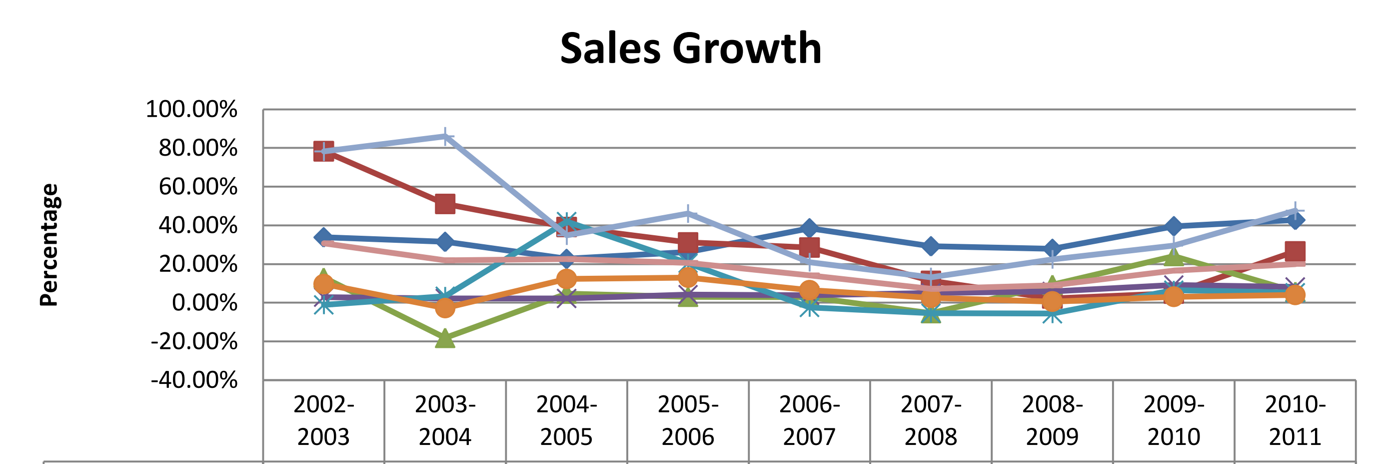
Since Amazon is a diversified e-retail company, we decided to use a custom industry made up of companies that we felt best represented their retail sector. Thus, eBay, Barnes and Noble, AutoZone, Target and NetFlix were selected since Amazon sells both discounted and premium goods as well as automotive parts and movies. From there, we calculated their growth rates via a geometric growth rate. It should be noted that, in the charts below, some companies will have blank spaces for a given year. This is to signify an "N/A" value for that year.

Growth Rate Comparisons (Year-Over-Year)

Sales Growth

Amazon has experienced the strongest growth in sales from 2002 to YTD 2011 compared to its peers.

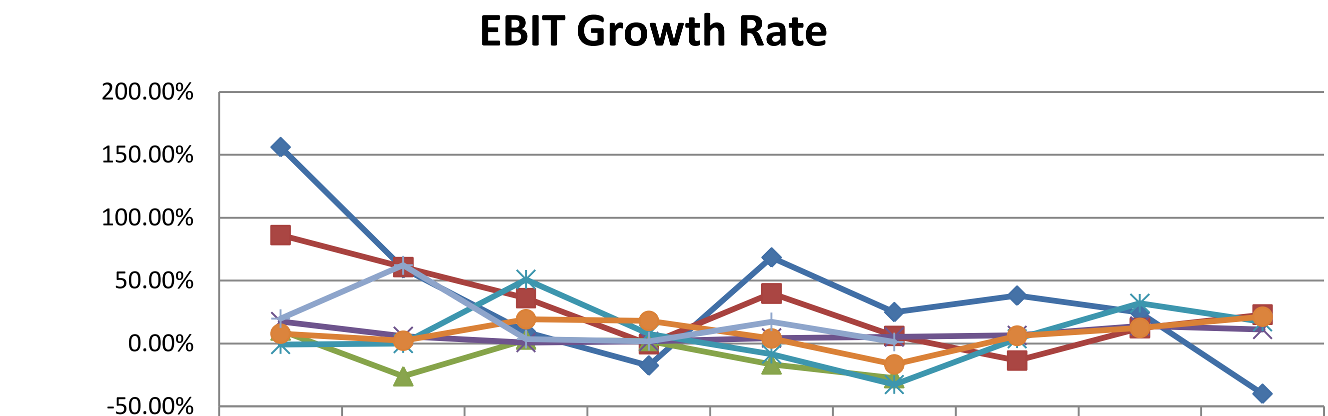
Although its growth of sales is not the highest before 2006, it is still higher than the industry average level.



	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
AMZN	33.84%	31.49%	22.67%	26.16%	38.50%	29.19%	27.88%	39.56%	42.80%
EBAY	78.33%	51.09%	39.16%	31.13%	28.52%	11.33%	2.18%	4.79%	26.57%
BKS	12.94%	-18.10%	4.71%	3.10%	2.84%	-5.34%	9.26%	24.13%	5.68%
AZO	2.84%	2.19%	2.15%	4.17%	3.82%	5.02%	5.84%	9.20%	8.10%
M	-1.11%	3.35%	41.92%	20.46%	-2.44%	-5.40%	-5.64%	6.45%	5.15%
TGT	9.67%	-2.75%	12.34%	13.06%	6.52%	2.49%	0.63%	3.11%	4.05%
NFLX	78.16%	85.95%	34.76%	46.09%	20.94%	13.22%	22.39%	29.48%	47.59%
Industry Avg	30.67%	21.89%	22.53%	20.60%	14.10%	7.22%	8.94%	16.67%	19.99%

EBIT Growth

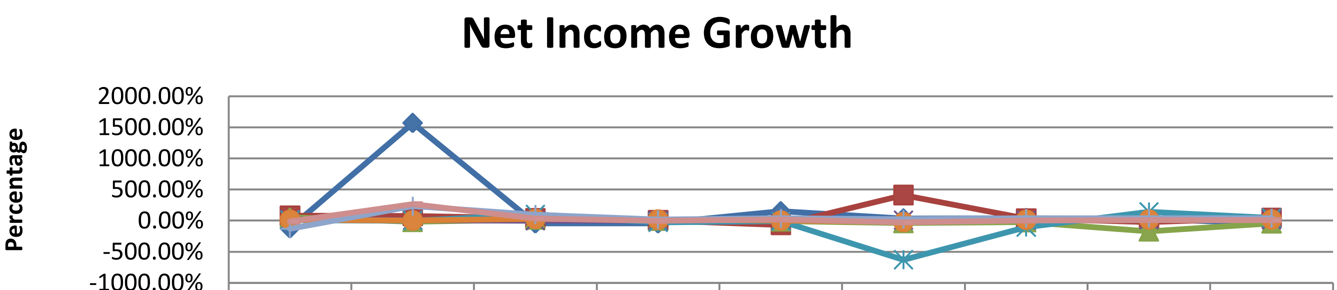
Earnings before interest and taxes reflect that Amazon's performance has been fluctuated over the ten years. However, it is still around the industry level for the last nine years and it went down sharply to - 40.03% for the growth rate of 2010 to 2011.



	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
AMZN	156.14%	59.74%	9.14%	-17.58%	68.38%	24.89%	38.02%	24.53%	-40.03%
EBAY	86.11%	60.68%	36.11%	-0.54%	39.77%	6.02%	-13.49%	12.28%	22.98%
BKS	10.26%	-26.06%	3.12%	1.97%	-16.66%	-27.55%			
AZO	17.51%	5.86%	0.78%	1.70%	4.37%	5.20%	6.46%	13.95%	11.27%
M	-0.78%	0.00%	50.93%	7.57%	-8.40%	-32.66%	3.71%	31.98%	17.32%
TGT	7.81%	2.33%	19.30%	17.99%	4.00%	-16.50%	6.16%	12.39%	21.39%
Industry Avg	19.82%	62.19%	3.51%	1.85%	17.22%	1.29%			

Net Income Growth

Amazon's net income growth rate demonstrated major growth from its 2002 to its 2003 high as well as from its declines in 2005 and 2006 to its rebound of 150% in 2007. After 2007, Amazon has performed slightly better than the industry average level except last year it drop down to the average.

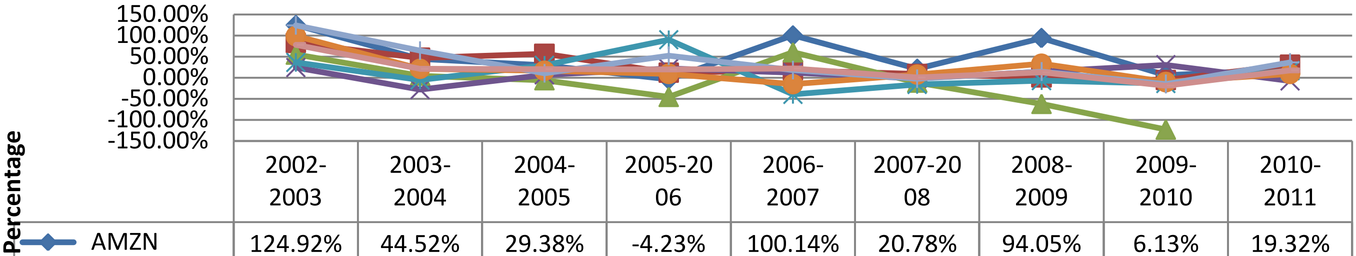


	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
AMZN	-123.53%	1567.85%	-43.41%	-42.94%	150.53%	35.50%	39.84%	27.72%	-48.79%
EBAY	78.95%	74.03%	39.04%	4.03%	-69.06%	410.97%	34.26%	-24.62%	42.94%
BKS	51.93%	-18.75%	18.89%	2.62%	-9.78%	-37.09%	-22.75%	-170.53%	-42.58%
AZO	19.03%	6.09%	-0.72%	2.83%	4.41%	5.98%	4.45%	14.67%	11.90%
M	8.62%	-0.58%	99.27%	-28.04%	-8.00%	-628.38%	-107.29%	142.00%	42.46%
TGT	11.31%	2.39%	27.75%	15.74%	2.22%	-22.29%	12.38%	17.36%	17.91%
NFLX	-129.67%	231.62%	94.61%	16.79%	36.41%	24.01%	39.55%	38.83%	38.95%
Industry Avg	-11.91%	266.09%	33.63%	-4.14%	15.25%	-30.18%	0.06%	6.49%	8.97%

Cash Flow From Operations

Amazon’s cash flow from operations growth has been predominantly better than its competitors since 2005. Amazon demonstrated major growth from its 2005 decline to its positive growth from 2006-07 to the present. After 2009, Amazon is not the highest in the industry but is still above the industry level.

Cash Flow Operation Growth Rate

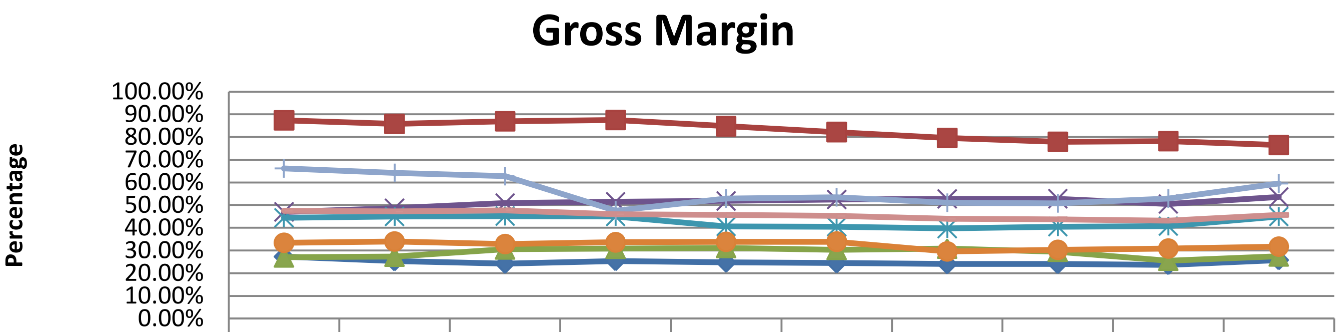


	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
AMZN	124.92%	44.52%	29.38%	-4.23%	100.14%	20.78%	94.05%	6.13%	19.32%
EBAY	82.14%	47.04%	56.37%	11.84%	17.50%	9.12%	0.91%	-5.58%	30.59%
BKS	54.72%	4.60%	-6.14%	-45.72%	60.22%	-11.76%	-62.27%	-123.12%	
AZO	24.11%	-28.04%	6.63%	21.76%	12.05%	-1.49%	13.81%	30.46%	-7.53%
M	36.13%	-5.22%	29.00%	89.92%	-39.57%	-15.78%	-6.87%	-13.94%	16.93%
TGT	98.74%	20.92%	16.49%	9.23%	-15.16%	7.39%	32.75%	-10.37%	8.82%
NFLX	123.84%	64.35%	10.44%	52.08%	17.74%	-2.67%	14.44%	-14.97%	36.16%
Industry Avg	77.80%	21.17%	20.31%	19.27%	21.85%	0.80%	12.40%	-18.77%	17.38%

Operating Ratios

Gross Margin

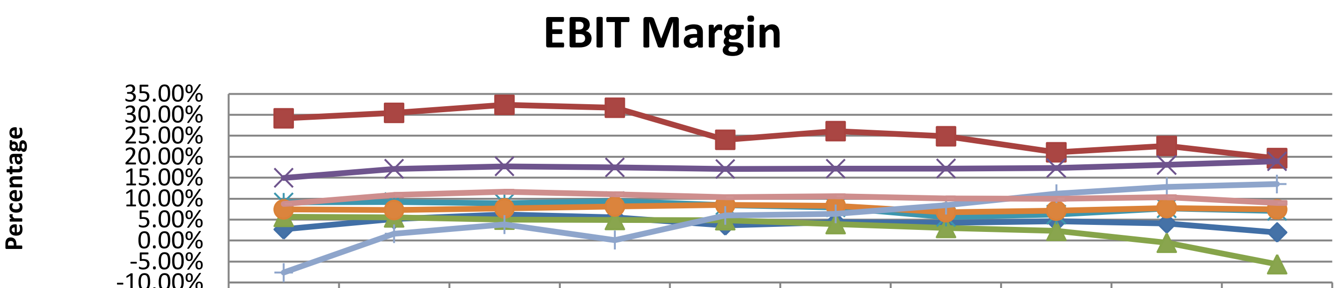
Gross Margin represents the amount of money the company generated over the cost of producing or purchasing its good and services. Amazon’s gross margin is not very good because it has been almost the lowest among the competitors among the ten years likely because cost of goods sold have been considerably high since 2002.



	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD 2011
AMZN	27.33%	25.32%	24.24%	25.38%	24.75%	24.43%	24.05%	24.13%	23.70%	25.82%
EBAY	87.38%	85.79%	86.96%	87.50%	84.77%	82.20%	79.59%	77.87%	78.22%	76.48%
BKS	26.98%	27.34%	30.51%	30.78%	31.14%	30.32%	30.87%	29.48%	25.54%	27.42%
AZO	47.02%	48.67%	50.93%	51.50%	51.85%	52.45%	52.75%	52.80%	50.51%	53.55%
M	44.42%	45.01%	45.18%	44.97%	40.60%	40.42%	39.70%	40.51%	40.71%	44.99%
TGT	33.37%	33.99%	32.87%	33.62%	33.77%	33.89%	29.53%	30.26%	30.87%	31.74%
NFLX	66.19%	64.23%	62.81%	47.59%	52.86%	53.44%	51.05%	50.80%	52.90%	59.60%
Industry Avg	47.53%	47.19%	47.64%	45.91%	45.68%	45.31%	43.94%	43.69%	43.21%	45.66%

EBIT Margin

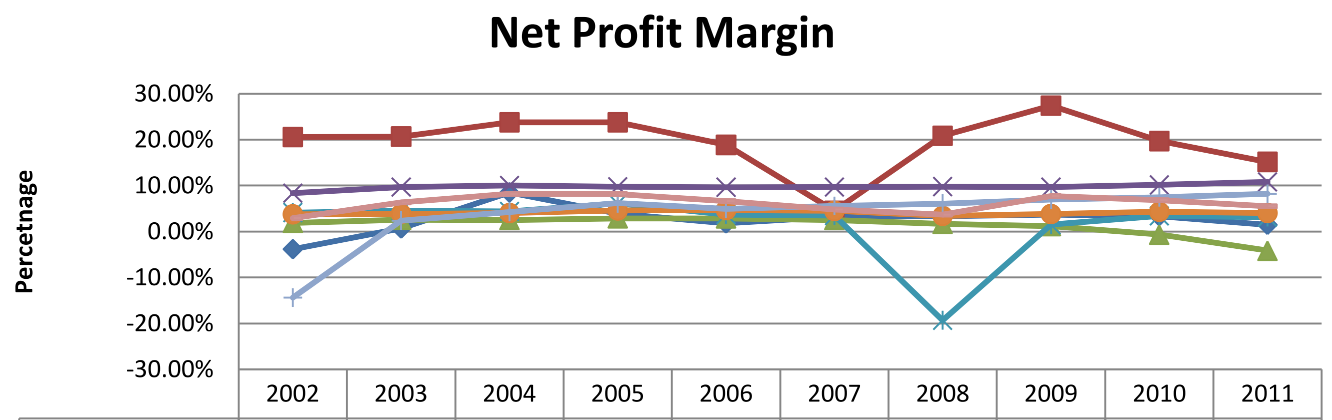
Amazon's EBIT margin has not been performing very well; it is between 5% to 7% below the industry average level since 2002.



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
AMZN	2.69%	5.14%	6.25%	5.56%	3.63%	4.42%	4.27%	4.61%	4.11%	1.96%
EBAY	29.17%	30.45%	32.38%	31.67%	24.02%	26.12%	24.88%	21.06%	22.57%	19.64%
BKS	5.68%	5.55%	5.01%	4.93%	4.88%	3.96%	3.03%	2.35%	-0.50%	-5.62%
AZO	14.97%	17.11%	17.73%	17.49%	17.07%	17.16%	17.19%	17.29%	18.04%	18.92%
M	9.14%	9.17%	8.87%	9.44%	8.43%	7.91%	5.63%	6.19%	7.68%	7.07%
TGT	7.43%	7.31%	7.69%	8.16%	8.52%	8.32%	6.78%	7.15%	7.79%	7.46%
NFLX	-7.64%	1.64%	3.82%	0.15%	5.98%	6.39%	8.44%	11.22%	12.83%	13.49%
Industry Avg	8.78%	10.91%	11.68%	11.06%	10.36%	10.61%	10.03%	9.98%	10.36%	8.99%

Net Profit Margin

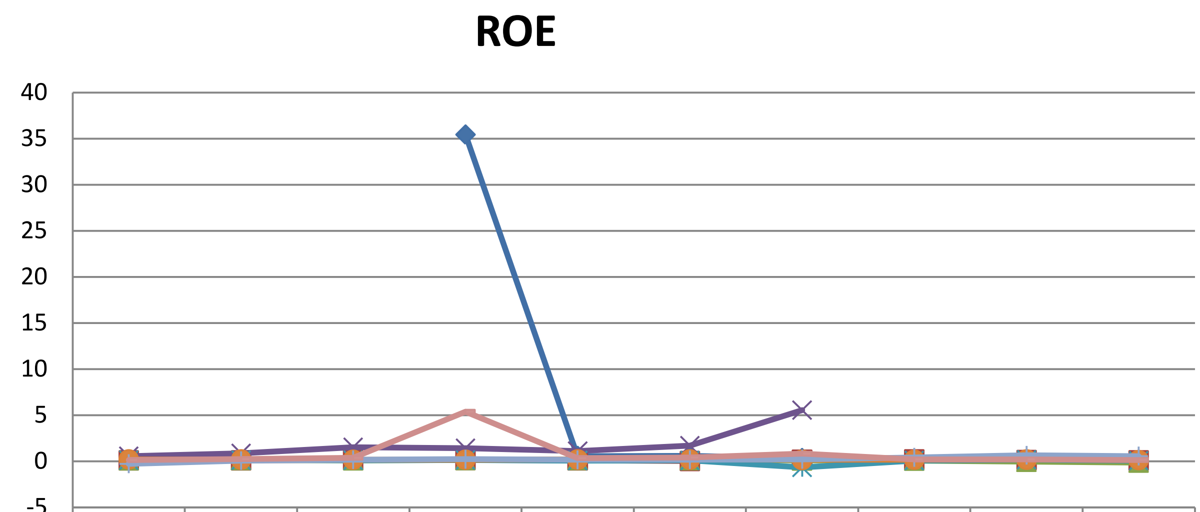
Net profit margin is the amount of each sales dollar after all expenses are deducted. In Amazon's case, its overall net profit margin has been lower than the industry average.



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
AMZN	-3.81%	0.67%	8.50%	3.92%	1.77%	3.21%	3.37%	3.68%	3.37%	1.48%
EBAY	20.58%	20.65%	23.79%	23.77%	18.86%	4.54%	20.83%	27.37%	19.69%	15.15%
BKS	1.90%	2.55%	2.53%	2.87%	2.86%	2.51%	1.67%	1.18%	-0.67%	-4.16%
AZO	8.36%	9.68%	10.05%	9.77%	9.64%	9.70%	9.78%	9.66%	10.14%	10.78%
M	4.13%	4.54%	4.37%	6.13%	3.66%	3.45%	-19.30%	1.49%	3.39%	3.15%
TGT	3.77%	3.82%	4.02%	4.58%	4.68%	4.50%	3.41%	3.81%	4.33%	4.01%
NFLX	-14.36%	2.39%	4.27%	6.16%	4.92%	5.55%	6.08%	6.94%	7.44%	8.20%
Industry Avg	2.94%	6.33%	8.22%	8.17%	6.63%	4.78%	3.69%	7.73%	6.81%	5.51%

ROE

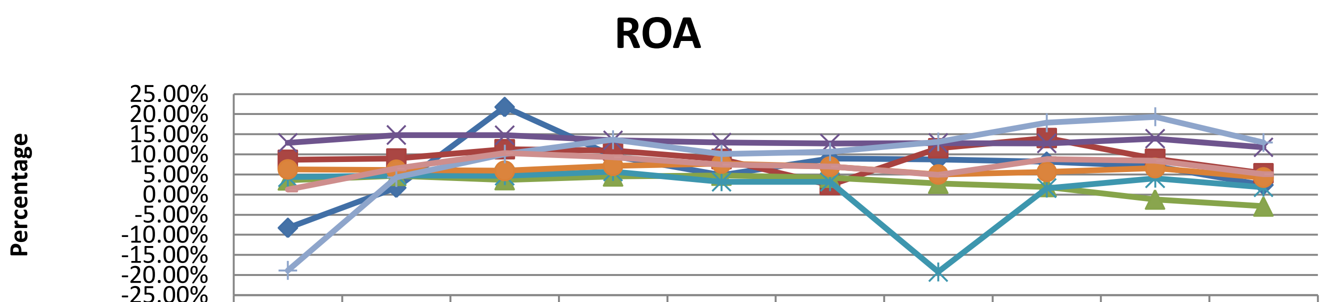
Return on equity measures how much profit a company generates with the money shareholders invested. Amazon’s demonstrated strong ROE in 2006 and 2007. After 2007, it is mainly around the industry average level.



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
AMZN				3544.63%	56.13%	58.48%	33.34%	22.75%	19.01%	6.21%
EBAY	10.02%	10.58%	13.39%	12.90%	10.74%	3.08%	15.62%	19.21%	12.38%	7.94%
BKS	10.43%	13.28%	10.17%	12.86%	13.20%	12.13%	8.56%	7.06%	-5.11%	-14.14%
AZO	53.96%	87.10%	151.06%	140.95%	109.30%	170.49%	554.39%			
M	11.27%	11.84%	11.38%	13.95%	7.67%	8.20%	-66.01%	7.49%	16.56%	6.47%
TGT	19.12%	17.95%	15.65%	17.68%	18.68%	18.42%	15.26%	17.12%	18.94%	12.67%
NFLX	-26.72%	6.45%	16.06%	21.97%	15.33%	15.85%	21.35%	42.42%	65.75%	56.27%
Industry Avg	13.01%	24.53%	36.28%	537.85%	33.01%	40.95%	83.22%	19.34%	21.25%	12.57%

ROA

Return on Assets measures how efficient management is using its assets to generate earnings. Amazon's ROA in 2004 is very high, but then in 2006 is slightly below the average. After 2007, the company's ROA fluctuates around the average level.

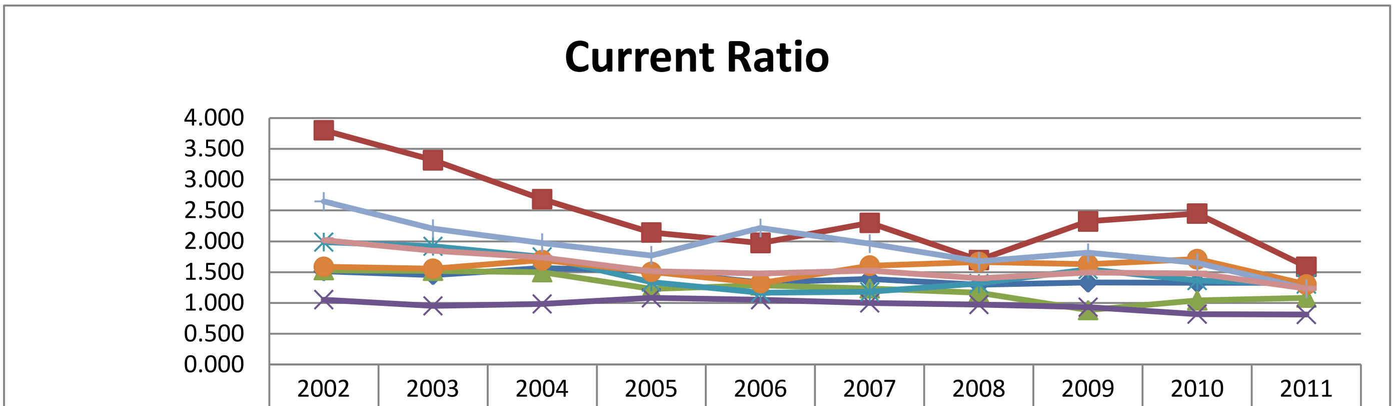


	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
AMZN	-8.27%	1.70%	21.75%	9.59%	4.83%	8.94%	8.72%	8.15%	7.07%	2.40%
EBAY	8.64%	8.99%	11.27%	10.94%	8.84%	2.40%	11.50%	14.05%	8.91%	5.33%
BKS	3.56%	4.67%	3.62%	4.54%	4.73%	4.21%	2.74%	1.92%	-1.18%	-2.91%
AZO	12.88%	14.81%	14.75%	13.52%	12.98%	12.74%	12.83%	12.74%	13.91%	11.76%
M	4.33%	4.78%	4.68%	5.71%	3.15%	3.17%	-19.24%	1.61%	4.04%	1.81%
TGT	6.27%	6.14%	5.92%	7.16%	7.70%	6.96%	4.99%	5.61%	6.62%	4.23%
NFLX	-18.85%	4.25%	10.10%	13.63%	10.08%	10.66%	13.13%	17.86%	19.36%	12.97%
Industry Avg	1.22%	6.48%	10.30%	9.30%	7.48%	7.01%	4.95%	8.85%	8.39%	5.08%

Short Term Solvency

Current Ratio

Current Ratio measures the company's ability to pay back its short-term liabilities with its short-term assets. The higher the ratio, the more capable the company is at paying its current obligations. Amazon's current ratio is slightly below the industry average level over the last 10 years and we can see that its main competitor in the group, eBay, is outperforming the industry.

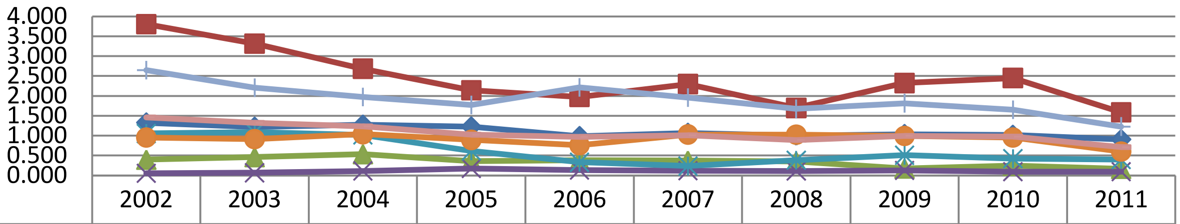


	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
AMZN	1.516	1.454	1.567	1.518	1.332	1.390	1.297	1.330	1.325	1.326
EBAY	3.802	3.315	2.683	2.144	1.974	2.298	1.697	2.323	2.450	1.589
BKS	1.532	1.521	1.499	1.230	1.284	1.236	1.168	0.884	1.041	1.085
AZO	1.054	0.955	0.984	1.084	1.054	1.000	0.974	0.934	0.820	0.814
M	1.987	1.919	1.746	1.337	1.167	1.180	1.315	1.545	1.362	1.310
TGT	1.586	1.555	1.694	1.502	1.323	1.605	1.664	1.627	1.709	1.299
NFLX	2.649	2.205	1.974	1.771	2.215	1.959	1.673	1.816	1.650	1.229
Industry Avg	2.018	1.846	1.735	1.512	1.478	1.524	1.398	1.494	1.480	1.236

Quick Ratio 1

Quick Ratio 1 is a measure of a company's ability to pay its short-term liabilities with its more liquid current assets. Amazon's quick ratio is below the average during 2002-2003 and is above the average during 2004 to 2005. Afterward, it is almost in the same level of the industry since 2006. Overall, it is around the industry level.

Quick Ratio 1

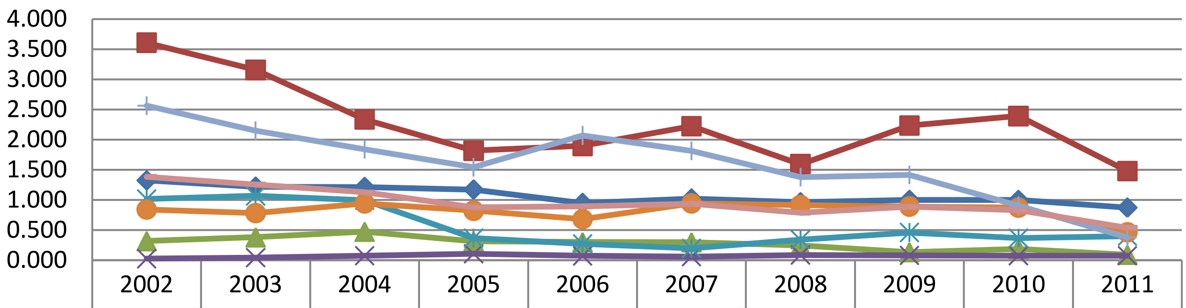


	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
AMZN	1.326	1.219	1.271	1.225	0.986	1.067	1.003	1.036	1.017	0.906
EBAY	3.802	3.315	2.683	2.144	1.974	2.298	1.697	2.323	2.450	1.589
BKS	0.399	0.463	0.537	0.361	0.379	0.377	0.352	0.176	0.246	0.169
AZO	0.055	0.066	0.113	0.173	0.134	0.116	0.109	0.127	0.092	0.095
M	1.054	1.091	1.021	0.617	0.331	0.236	0.385	0.509	0.423	0.400
TGT	0.954	0.912	1.039	0.894	0.760	1.029	1.026	0.993	0.955	0.600
NFLX	2.649	2.205	1.974	1.771	2.215	1.959	1.673	1.816	1.650	1.229
Industry Avg	1.463	1.324	1.234	1.026	0.968	1.012	0.892	0.997	0.976	0.713

Quick Ratio 2

Quick Ratio 2 measures how well a firm can meet its short-term obligations with its most liquid short-term assets. For Amazon, this figure is slightly above the industry average level since 2003. Overall, AMAZON's short-term liquidity has not been very favorable compared to its main competitor EBAY.

Quick Ratio 2

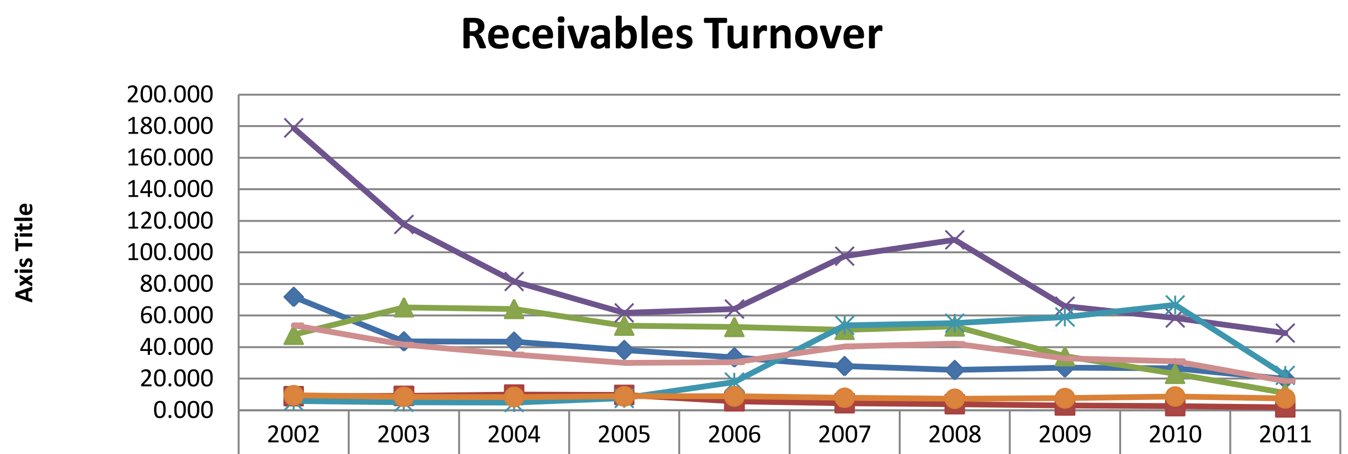


	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
AMZN	1.323	1.219	1.213	1.171	0.948	1.022	0.960	0.999	0.998	0.871
EBAY	3.607	3.156	2.334	1.816	1.896	2.223	1.592	2.233	2.390	1.479
BKS	0.317	0.380	0.473	0.312	0.300	0.298	0.246	0.134	0.188	0.090
AZO	0.024	0.042	0.073	0.106	0.072	0.058	0.087	0.079	0.073	0.073
M	1.017	1.066	0.997	0.365	0.272	0.195	0.340	0.459	0.366	0.400
TGT	0.840	0.781	0.942	0.821	0.681	0.942	0.915	0.890	0.873	0.462
NFLX	2.563	2.145	1.838	1.543	2.070	1.812	1.376	1.415	0.902	0.378
Industry Avg	1.384	1.255	1.124	0.876	0.891	0.936	0.788	0.887	0.827	0.536

Operating Efficiency

Receivables Turnover

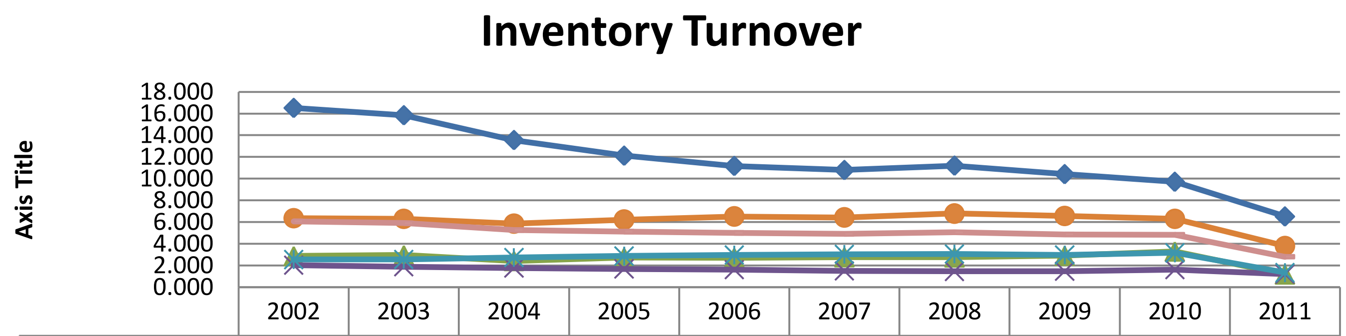
An accounting measure used to quantify a firm's effectiveness in extending credit as well as collecting debts. Amazon was above the industry average until 2006, when it drops below the average. However, Amazon maintains relatively stable around the industry average level. NetFlix, in this case, is N/A because it does not record receivables on its balance sheet.



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
AMZN	71.769	43.561	43.370	38.063	33.420	27.885	25.402	27.007	26.566	19.881
EBAY	8.857	9.055	9.764	9.662	5.594	4.322	3.764	3.045	2.498	1.791
BKS	47.753	65.163	64.114	53.542	52.722	50.886	53.022	34.166	23.035	10.874
AZO	178.910	117.632	81.594	61.610	64.004	97.585	107.884	65.928	58.335	48.818
M	5.798	4.957	4.758	7.539	17.749	53.700	55.193	58.944	66.675	22.088
TGT	9.348	8.494	8.310	8.764	8.734	7.857	7.158	7.528	8.607	7.395
NFLX										
Industry Avg	53.739	41.477	35.318	29.863	30.370	40.373	42.070	32.770	30.953	18.474

Inventory Turnover

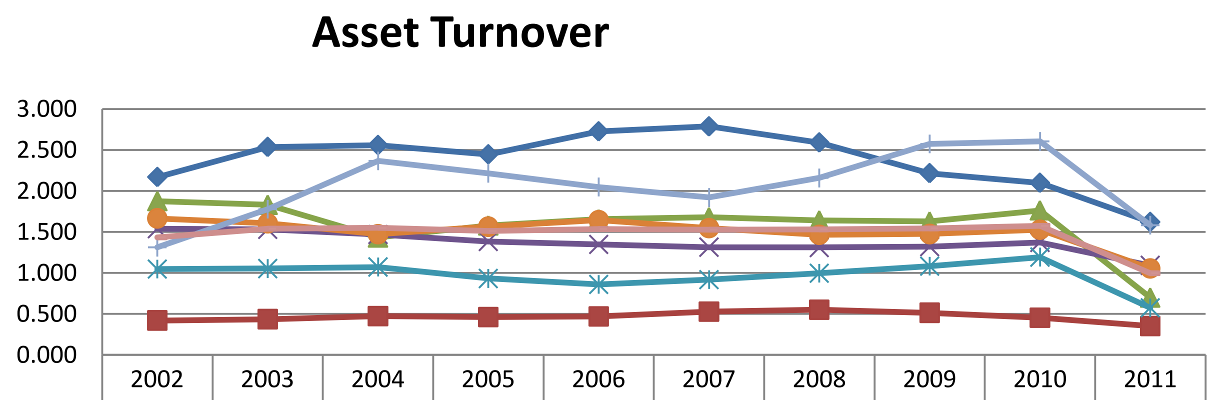
Inventory turnover measures how often a company's inventory is sold during a period of time (in this case, annually). Even though Amazon's inventory turnover is trending downward, it is the highest among all the competitors. Here, eBay and NetFlix have N/A values because they do not record inventories on their balance sheets.



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
AMZN	16.513	15.840	13.555	12.116	11.171	10.795	11.201	10.417	9.714	6.521
EBAY										
BKS	2.870	2.959	2.418	2.729	2.715	2.771	2.755	2.900	3.301	1.180
AZO	2.024	1.886	1.758	1.688	1.622	1.506	1.459	1.470	1.619	1.209
M	2.548	2.553	2.730	2.872	2.973	3.021	3.054	2.978	3.163	1.341
TGT	6.355	6.293	5.863	6.225	6.517	6.429	6.788	6.566	6.306	3.792
NFLX										
Industry Avg	6.062	5.906	5.265	5.126	5.000	4.904	5.051	4.866	4.821	2.809

Asset Turnover

Asset turnover measures a firm's efficiency at using its assets in generating sales or revenue. For Amazon, its asset turnover has been above its peers' and the industry average from 2002 to YTD 2011, despite the decline since 2010.

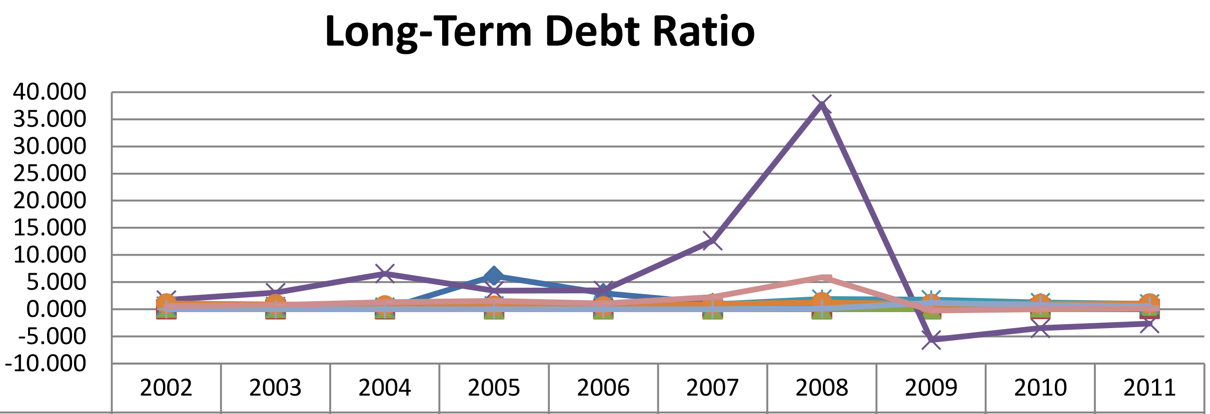


	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
AMZN	2.168	2.535	2.558	2.445	2.725	2.786	2.590	2.215	2.098	1.619
EBAY	0.420	0.435	0.474	0.460	0.469	0.529	0.552	0.513	0.453	0.352
BKS	1.876	1.830	1.432	1.578	1.654	1.679	1.641	1.627	1.763	0.700
AZO	1.539	1.530	1.468	1.384	1.346	1.314	1.311	1.320	1.372	1.091
M	1.047	1.053	1.072	0.932	0.860	0.918	0.997	1.081	1.193	0.575
TGT	1.665	1.606	1.471	1.564	1.645	1.547	1.465	1.475	1.527	1.054
NFLX	1.312	1.776	2.367	2.213	2.048	1.920	2.158	2.574	2.603	1.582
Industry Avg	1.432	1.538	1.549	1.511	1.535	1.527	1.530	1.544	1.573	0.996

Long Term Solvency

Long-Term Debt-to-Equity Ratio

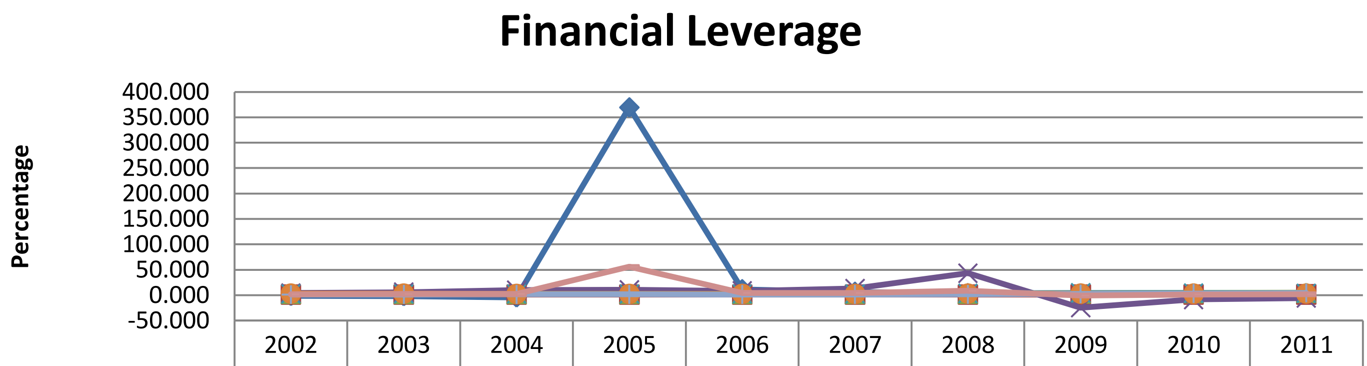
Long-Term Debt Ratio indicates what proportion of equity and long-term debt the company is using to finance its assets. Amazon's long-term debt ratio is a little bit higher than its industry average level during 2005 to 2006, but it become much smaller in the following years. AMAZON is not very aggressive in financing its growth with debt.



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
AMZN	0.000	0.000	0.000	6.163	2.940	1.123	0.199	0.048	0.093	0.000
EBAY	0.004	0.025	0.000	0.000	0.000	0.000	0.000	0.000	0.098	0.095
BKS	0.292	0.238	0.210	0.000	0.000	0.000	0.000	0.000	0.348	0.664
AZO	1.742	3.071	6.578	3.433	3.492	12.634	37.805	-5.661	-3.482	-2.645
M	0.591	0.530	0.428	0.655	0.640	0.917	1.880	1.799	1.261	1.033
TGT	1.079	0.923	0.693	0.642	0.555	0.988	1.276	0.985	1.008	1.058
NFLX	0.005	0.000	0.000	0.000	0.000	0.000	0.109	1.188	0.807	0.598
Industry Avg	0.619	0.798	1.318	1.556	1.090	2.237	5.896	-0.234	0.019	0.115

Financial Leverage

Financial leverage is the ratio of total assets divided by total equity. It identifies the degree to which a company is utilizing borrowed money. Amazon's financial leverage has roughly been on par with its peers and the industry since 2002 and it looks like Amazon does not use leverage very much to finance its assets.



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
AMZN	-1.299	-1.738	-4.283	369.605	11.610	6.541	3.825	2.791	2.690	2.587
EBAY	1.160	1.176	1.188	1.179	1.215	1.284	1.359	1.367	1.389	1.491
BKS	2.933	2.843	2.807	2.834	2.789	2.878	3.128	3.678	4.324	4.855
AZO	4.191	5.881	10.240	10.427	8.422	13.381	43.226	-24.764	-8.474	-5.557
M	2.603	2.477	2.431	2.441	2.433	2.587	3.431	4.648	4.098	3.579
TGT	3.049	2.925	2.643	2.471	2.425	2.647	3.055	3.050	2.862	2.997
NFLX	1.417	1.517	1.590	1.612	1.520	1.486	1.626	2.375	3.396	4.338
Industry Avg	2.008	2.155	2.374	55.795	4.345	4.401	8.521	-0.979	1.469	2.041

V. EARNINGS FORECAST

To calculate the earnings per share figure for 2012, a pro forma statement was created (See Appendix). Since Amazon's product lines are so varied, a custom industry was created with eBay, Barnes and Noble, AutoZone, Macy's, Target and NetFlix. Combining their revenues with Amazon's, it is forecasted that Amazon will earn $65.94 billion by the end of 2012. It is also predicted that the company will have a 33% industry share given its release of the Kindle Fire, its music streaming service called "Amazon Cloud Music", the growing trend of e-retail and the fact that one of its competitors, Barnes and Nobles, is having trouble gaining a foothold in the e-reader business wits its Nook tablet. After deducting cost of goods sold, which, as a percentage of revenue, is assumed to stay in the mid-70s given the trend since 2002, the gross profit will be $15.82 billion.

Operating income for 2012 is forecasted to be $1.66 billion after adjusting for depreciation and amortization as well as selling, general and administrative expenses. It is assumed that such expenses, particularly those involving order fulfillments, will increase as business activity grows. What is also assumed is that research and development costs will rise as Amazon develops its business lines and competes with Apple's iPad in the tablet PC business.

We believe that there will not be any significant changes in Amazon's non-operating income and expenses next year. Historical patterns suggest that interest income will be approximately $70 million while interest expense is estimated to be $70.26 million after factoring in the company's existing capital and financing lease payments, which are mentioned in its 2011 quarterly reports and 2010 annual report, as well as its payments towards its $184 million loan, which is set to mature in 2013. Due to the volatile nature of exchange rates, other income, which is derived from its international businesses and marketable securities, is estimated to be $39 million when using the average other income figures from 2005 to 2010. It is also assumed that, with a lack of commentary regarding current and future major events relating to Amazon, no extraordinary expenses will made. Thus, after making all of these considerations, pre-tax income is estimated to be $1.7 billion.

Income tax expenses are expected to increase from $259.44 million in 2011 to $593.78 million in 2012. Though Amazon doesn't specify an effective tax rate in its reports due to varying international income tax laws, comments regarding its 2011 tax rates in its quarterly reports for this year suggest that Amazon will have no more than a 30% rate by the end of this year. However, Amazon reported that it will soon exhaust tax benefits from federal and state level which lead us to predict the effective tax rate will increase significantly in 2012 to 35%. Thus, net income is predicted to be $1.10 billion dollars by the end of 2012. By dividing it with a weighted average of diluted shares of 466 million, earnings per share will be $2.37.
If the tax rate still remains low at 30%, the earning per share will be $2.55.

VI. RELATIVE VALUATION

In relative valuation, the value of an asset is compared to the values assessed by the market for similar or comparable assets. Using relative valuation allows us to show AMAZON's position relative to that of its competitors EBAY (EBAY), Barnes & Noble (BKS), AutoZone (AZO), Macy (M), Target (TGT), Netflix (NFLX), the industry and the consumer discretionary sector of the S&P. The chart below displays forward P/E figures for 2012.

	2012 FY2 (P/E)
AMAZON	**96.42**
BKS	**N/A**
M	**10.34**
AZO	**13.9366**
NFLX	**115.29**
EBAY	**12.79**
TGT	**12.14**
SP500 Consumer Discretionary	**13.13**
Industry* Avg	**43.352**

Source: Factset Financial system as dated 12/02/2011

We divided Amazon's LTM P/E by each of its competitors year by year in order to get an adjustment factor between Amazon's P/E levels and each competitor's P/E levels. Based on our Pro-Forma Income Statement we get the estimated EPS of AMAZON is $2.37. The EPS is used to calculate the Current Estimated Price for AMAZON. The chart below shows the adjustment factors for each competitor.

Adjustment factor	
BKS	**1.60**
M	**11.28**
AZO	**4.95**
NFLX	**2.15**
EBAY	**4.27**
TGT	**4.90**
SP500 Consumer Discretionary	**3.56**
INDUSTRY* Avg	**2.24**

Using the following formula: (comparable P/E) * adjustment factor* estimated EPS, we derived the current price estimate for Amazon relative to every competitor. Below is the chart that presents the estimated price calculations relative to each competitor and the average price estimation with and without the NFLX outlier, which are $234 and $175, respectively.

	Current Estimation Price
BKS	**N/A**
M	**$275.92**
AZO	**$163.09**
NFLX	**$586.68**
EBAY	**$129.38**
TGT	**$140.66**
SP500 Consumer Discretionary	**$110.61**
INDUSTRY* Avg	**$230.24**
Average Price Estimation (w/ NFLX)	**$233.80**
Average Price Estimation (w/o NFLX)	**$174.98**

As of 12/14/11, the closing price of AMAZON was $180.21. While using relative valuation shows that AMAZON is slightly overvalued if compare with the average price without NFLX and it is undervalued if compare with the average price with NFLX. In the end, the relative valuation suggests that Amazon is fairly valued.

VII. ABSOLUTE VALUATION

Absolute valuation is used to measure the intrinsic value of the firm at the present time. It is normally calculated by discounting future cash flows of the firm. Since Amazon does not pay dividends, we used a Free Cash Flow to Equity (FCFE) model with the assumption that the free cash flow to equity would be a fair representation of the potential values distributed to shareholders in the future. Another reason to choose FCFE is that Amazon has a relatively low debt ratio and we believe that with a strong cash reserve, the company would be able to maintain the low debt ratio in the near future.

To discount the Free Cash Flow to Equity, we will apply two-stage growth with initial high growth rate and a lower perpetuity growth rate (terminal growth rate).

Cost of Equity ("COE")

We will use two common methods to determine Amazon's true cost of equity: CAPM and Fama-French.

CAPM:

$$R_i = R_f + \beta_i(R_m-R_f)$$

R_i : Expected Return of the company.
R_f: Risk free rate
(R_m-R_f): Market Excess return
β_i: Beta of company vs market

Rf	10-year T bond	30-year T bond	10-year STRIP	30-year STRIP
	1.97%	2.92%	2.17%	3.12%
Beta CAPM (source: Bloomberg)	**Raw**	**Adjusted**		
Beta (5-year)	1.007	1.004		
Beta (10-year)	1.274	1.183		
Market Excess (source: Ken.French)	**20y average**	**10 y average**		
Monthly	0.49	0.27		
Annual	6.0%	3.3%		
COE (used 5 years regress. Betas)	**10y T bond**	**30y T bond**	**10y STRIP**	**30y STRIP**
CAPM K (used 20 years average excess)	8.02%	8.98%	8.22%	9.17%
CAPM K (used 10 years average excess)	5.30%	6.26%	5.51%	6.45%
COE (used 10 years regress. Betas)	**10y T bond**	**30y T bond**	**10y STRIP**	**30y STRIP**
CAPM K (used 20 years average excess)	9.63%	10.58%	9.83%	10.78%
CAPM K (used 10 years average excess)	6.19%	7.15%	6.39%	7.34%

The CAPM model shows that the COE of Amazon is between 5.3% and 10.8%

Fama-French Model:

The Fama-French model builds upon CAPM by adding two more factors: size and value in addition to the market risk.

$$R_i = R_f + \beta_i(R_m - R_f) + b_s*SMB + b_v*HML$$

R_i : Expected Return of the company.
R_f: Risk free rate
(R_m-R_f): Market Excess return
β_i: Beta of company vs market
bs: beta of small minus big excess
bv: beta of high minus low value excess
SMB: excess return small company vs big company
HML: excess return high value company vs low value company

The 3 betas are calculated by multivariate regression with different time frames: 14 years (1997-2011), 10 years (2001-2011) and 5 years (2006-2011). The 3 excess returns will be calculated by taking average of excess returns with different time frames: 26 years (1985-2011) and 5 years (2006-2011)

Summarize Anova Table				
	R-Square	**beta 1 (Mkt-Rf)**	**beta 2 (SMB)**	**beta 3 (HML)**
14 Years Regression (monthly)	30%	1.76	-0.88	-1.72
10 Years Regression (monthly)	28%	1.28	0.73	-1.64
5 Years Regression (monthly)	32%	1.35	-0.21	-1.65

COE (used 5 years regress. Betas)	10y T bond	30y T bond	10y STRIP	30y STRIP
Farma K (used 26 years average excess)	6.95%	7.90%	7.15%	8.10%
Farma K (used 5 years average excess)	9.68%	10.64%	9.89%	10.83%
COE (used 10 years regress. Betas)	**10y T bond**	**30y T bond**	**10y STRIP**	**30y STRIP**
Farma K (used 26 years average excess)	7.59%	8.54%	7.79%	8.74%
Farma K (used 5 years average excess)	12.89%	13.85%	13.09%	14.04%
COE (used 14 years regress. Betas)	**10y T bond**	**30y T bond**	**10y STRIP**	**30y STRIP**
Farma K (used 26 years average excess)	8.96%	9.92%	9.16%	10.11%
Farma K (used 5 years average excess)	8.47%	9.43%	8.67%	9.62%

Data are collected from Ken French Website[2]

From the cost of equity calculated using CAPM model and Fama French model, we suggest that the true cost of equity for AMAZON should be from 8 to 11%. The three COEs we select to discount free cash flow are high-lighted. This selection is based on our preference for the Fama French model, higher R square. The reason to choose Fama French because it takes into account more factors that could affect the market returns. The reason to choose higher R-square is more obvious, we want a more predictive power for own model, in this case, the 5 years regression time frame yields the highest R-square

Free Cash Flow to Equity

The detailed calculation for FCFE is shown in the table below:
For fiscal year end December 2011, we use the data reported in the first 3 quarters and our own estimation for the fourth quarter. One exception is The Change in Working Capital which is forecasted indirectly based on our estimation of Cash Flow from Operation subtracts Estimation of Net Income and Non Cash Expense.

Free Cash Flow To Equity

	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10	31-Dec-11
Net Income	476.00	645.00	902.00	1152.00	607.36
Non Cash Expenses	97.00	338.00	779.00	762.00	1,584.80
Depreciation, Depletion & Amortization	*271.00*	*340.00*	*378.00*	*568.00*	*976.80*
Deferred Taxes & Investment Tax Credit	*(99.00)*	*(5.00)*	*81.00*	*4.00*	*68.00*
Other Funds	*(75.00)*	*3.00*	*320.00*	*190.00*	*540.00*
Change in Working Capital	832.00	714.00	1,612.00	1,581.00	2,052.84
Receivables	*(255.00)*	*(218.00)*	*(481.00)*	*(295.00)*	*N/A*
Inventories	*(303.00)*	*(232.00)*	*(531.00)*	*(1019.00)*	*N/A*
Accounts Payable	*928.00*	*812.00*	*1859.00*	*2373.00*	*N/A*
Other Accruals	*429.00*	*247.00*	*300.00*	*740.00*	*N/A*
Other Assets/Liabilities	*33.00*	*105.00*	*465.00*	*(218.00)*	*N/A*
Investment of Fixed Capital	(299.00)	(827.00)	(413.00)	(1,331.00)	(2,278.50)
Capital Expenditures	*(224.00)*	*(333.00)*	*(373.00)*	*(979.00)*	*(1622.50)*
Net Assets from Acquisitions	*(75.00)*	*(494.00)*	*(40.00)*	*(352.00)*	*(656.00)*
Net Borrowing	(50.00)	(268.00)	(385.00)	(78.00)	(279.00)
Issuance/Reduction of Debt, Net	*(50.00)*	*(268.00)*	*(385.00)*	*(78.00)*	*(279.00)*
FCFE	1,056.0	602.0	2,495.0	2,086.0	1,687.5

[2] http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/index.html

Additional Note	
2011 CFoP Estimation	4,245.00
7 years Geo Growth Rate, 04-11	31.45%
6 years Geo Growth Rate, 06-11	37.84%
4 years Geo Growth Rate	12.43%
High Growth Rate	25%
Cost of Equity From Farma 1	8.10%
Cost of Equity From Farma 2	10.83%
Cost of Equity From Farma 3	9.68%

We forecast the Free Cash Flow to Equity till 2016 with different growth rates:

	31-Dec-12	31-Dec-13	31-Dec-14	31-Dec-15	31-Dec-16
G1	FCFE ESTIMATE AFTER 2012				
0%	1687.50	1687.50	1687.50	1687.50	1687.50
10%	1856.25	2041.88	2246.06	2470.67	2717.74
15%	1940.63	2231.72	2566.48	2951.45	3394.17
20%	2025.00	2430.00	2916.00	3499.20	4199.04
25%	2109.38	2636.72	3295.90	4119.87	5149.84
30%	2193.75	2851.88	3707.44	4819.67	6265.57
35%	2278.13	3075.47	4151.88	5605.04	7566.81
40%	2362.50	3307.50	4630.50	6482.70	9075.78

The 6 years geometric growth rate of Amazon is 37.84% while the 4 years geometric growth rate of Amazon is only 12.43% due to the impact of the recent economic recession. So we assume an initial growth rate of 25% from 2012 through 2016. We calculate the present value of the Amazon stock based on different costs of equity and a scenario analysis terminal growth rates:

25.00%	Terminal Growth Rate								
COE	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%
8.10%	$136.26	$155.10	$181.34	$220.38	$284.61	$410.00	$763.38	$8,184.27	($885.71)
9.68%	$109.22	$120.77	$135.79	$156.09	$185.06	$229.79	$307.89	$478.97	$1,153.22
10.83%	$95.07	$103.59	$114.27	$128.09	$146.64	$172.88	$212.81	$280.97	$423.63

The highlighted cells are the range in which the current market price of Amazon falls. Based on the table above, we can see the relationship between COE and terminal growth rate. Given the current market price as a focal point, if the COE increases 1% the terminal growth rate should also increase 1% to justify the current market price. Fortunately, the range of cost of equity for Amazon as we estimate is pretty narrow from 8-11%. More important, we can see that with a near-term growth rate of 25% and a longer-term growth rate of no more than 7%, the stock is fairly valued now, meaning that if future growth is above 7%, it is worth buying.

Using our highest COE of 10.83%, we calculate the present value of the AMAZON stock based on different initial growth rate and terminal growth rate:

10.83%	Terminal Growth Rate								
Initial Growth Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%
0%	$36.00	$38.79	$42.29	$46.82	$52.90	$61.49	$74.58	$96.92	$143.66
10%	$54.00	$58.49	$64.13	$71.42	$81.21	$95.06	$116.14	$152.11	$227.39
15%	$65.57	$71.18	$78.22	$87.33	$99.56	$116.85	$143.17	$188.10	$282.12
20%	$79.17	$86.11	$94.83	$106.09	$121.22	$142.61	$175.18	$230.75	$347.07
25%	$95.07	$103.59	$114.27	$128.09	$146.64	$172.88	$212.81	$280.97	$423.63
30%	$113.56	$123.91	$136.91	$153.72	$176.30	$208.22	$256.81	$339.74	$513.30
35%	$134.94	$147.45	$163.15	$183.45	$210.71	$249.26	$307.94	$408.09	$617.70
40%	$159.56	$174.56	$193.39	$217.73	$250.43	$296.67	$367.05	$487.18	$738.58

The highlighted cells are the range in which the current market price of Amazon falls. Based on the table above, we can see the relationship between initial growth rate and terminal growth rate. Take the high-lighted cell as focal point, if the initial growth rate decreases by 5% the terminal growth rate should increase by 1% to justify the current market price. It would mean that our model is not very sensitive to initial growth rate. A small change of 5% in initial growth rate would not affect our valuation. Even if our initial growth rate of 25% is overly optimistic and near-term growth is only 10%, Amazon only has to produce longer-term FCFE growth of about 8.5% to justify the current stock price.

To conclude, given the initial growth rate of 25%, COE of 10.83%, the terminal growth rate should be at 7% to justify the current market price of AMAZON, anything above 7% would further support our opinion that AMAZON is undervalue. Although the FCFE of AMAZON has been flat for the last couple of years we see that it is mainly because of the increasing investment in R&D and to make strategic acquisitions as the firm is extending its business. These investments would boost the growth of Amazon in long term and short term. Our sensitivity analysis shows that even Amazon sacrifices short term growth with a low rate of 10 to 15% to invest more on R&D, the stock can still be valuable with a long term growth of 8.5%.

VIII. Risk Factors

The following risk factors were obtained from Amazon's 2010 10-K report:

- ***We Face Intense Competition***
  The businesses are rapidly evolving and intensely competitive, and we have many competitors in different industries, including retail, e-commerce services, digital content and digital media devices, and web services. Many of our current and potential competitors have greater resources, longer histories, more customers, and greater brand recognition. They may secure better terms from vendors, adopt more aggressive pricing and devote more resources to technology, infrastructure, fulfillment, and marketing

- ***Our Expansion Places a Significant Strain on our Management, Operational, Financial and Other Resources***
  AMAZON is rapidly and significantly expanding our global operations, including increasing our product and service offerings and scaling our infrastructure to support our retail and services businesses. This expansion increases the complexity of our business and places significant strain on our management, personnel, operations, systems, technical performance, financial resources, and internal financial control and reporting functions.

- ***Our Expansion into New Products, Services, Technologies and Geographic Regions Subjects Us to Additional Business, Legal, Financial and Competitive Risks***

- ***We May Experience Significant Fluctuations in Our Operating Results and Growth Rate***
  We may not be able to accurately forecast our growth rate. We base our expense levels and investment plans on sales estimates. A significant portion of our expenses and investments is fixed, and we may not be able to adjust our spending quickly enough if our sales are less than expected. Our revenue growth may not be sustainable, and our percentage growth rates may decrease. Our revenue and operating profit growth depends on the continued growth of demand for the products and services offered by us or our sellers, and our business is affected by general economic and business conditions worldwide. A

softening of demand, whether caused by changes in customer preferences or a weakening of the U.S. or global economies, may result in decreased revenue or growth.

- ***We May Not Be Successful in Our Efforts to Expand into International Market Segments***
  Our international activities are significant to our revenues and profits, and we plan further expand internationally. In certain international market segments, we have relatively little operating experience and may not benefit from any first-to-market advantages or otherwise succeed. It is costly to establish, develop and maintain international operations and websites and promote our brand internationally. Our international operations may not be profitable on a sustained basis.

- ***If We Do Not Successfully Optimize and Operate Our Fulfillment Centers, Our Business Could Be Harmed***
  A failure to optimize inventory will increase our net shipping cost by requiring long-zone or partial shipments. Orders from several of our websites are fulfilled primarily from a single location, and we have only a limited ability to reroute orders to third parties for drop-shipping. We and our co-sourcers may be unable to adequately staff our fulfillment and customer service centers. As we continue to add fulfillment and warehouse capability or add new businesses with different fulfillment requirements, our fulfillment network becomes increasingly complex and operating it becomes more challenging.

- ***The Seasonality of Our Business Places Increased Strain on Our Operations***
  We expect a disproportionate amount of our net sales to occur during our fourth quarter. If we do not stock or restock popular products in sufficient amounts such that we fail to meet customer demand, it could significantly affect our revenue and our future growth. If we overstock products, we may be required to take significant inventory markdowns or write-offs, which could reduce profitability.

- ***Our Business Could Suffer if We Are Unsuccessful in Making, Integrating, and Maintaining Commercial agreements, Strategic Alliances, and Other Business Relationships***

- ***Our Business Could Suffer if We Are Unsuccessful in Making, Integrating, and Maintaining acquisitions and Investments***

- ***We Have Foreign Exchange Risk***
  The results of operations of, and certain of our intercompany balances associated with, our international websites are exposed to foreign exchange rate fluctuations. Upon translation, operating results may differ materially from expectations, and we may record significant gains or losses on the re-measurement of intercompany balances. As we have expanded our international operations, our exposure to exchange rate fluctuations has increased (Amazon 2010 10-K Report).

IX. Conclusion

From the ratio analysis, we can tell that overall Amazon is in the average industry level. Based on the relative valuation model, we think that Amazon is fairly valued by comparing the market value of Amazon which is $180.21(closed on 12/14/2011) with two current estimation prices which are $233.8 and $174.98. Based on our Absolute Valuation, with short term growth of 25%, cost of equity of 10.83% and terminal growth of 7%, the present value of the stock should be $212.81 which means the stock is currently undervalue. In addition, we believe that the new product and services Amazon has been introduced are very promising and definitely add value to the stock in long term. With increasing investment in research and development, the company would be able keep its growth and add more value to the stock. We recommend buying 100 shares of Amazon's stock

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APPENDIX

Pro Forma Income Statement

AMAZON, INC. (**Figures in millions)		1.1%	1.9%	0.3%	0.8%	2.6%	2.8%	3.3%	4.5%	5.4%	5.2%
Calculate Yearly "share" ----------->	5.22%	6.37%	8.26%	8.52%	9.28%	11.86%	14.68%	17.98%	22.44%	27.83%	33.000%
Industry Revenues ------------------->	75,289.27	82,599.58	83,828.44	99,600.37	115,402.00	125,035.89	130,579.07	136,276.68	152,416.59	175,536.32	199,833.88
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net Sales	3,932.94	5,263.70	6,921.12	8,490.00	10,711.00	14,835.00	19,166.00	24,509.00	34,204.00	48,843.70	65,945.18
COGS	2858.044	3930.973	5243.403	6335	8060	11211.0	14556.00	18594.000	26098	37083.40	50118.34
Total COGS as % of Rev	72.67%	74.68%	75.76%	74.62%	75.25%	75.57%	75.95%	75.87%	76.30%	75.92%	76.00%
GROSS PROFIT	1,074.89	1332.726	1677.721	2155	2651	3624	4,610.00	5915.000	8106.000	11760.300	15826.843
Depreciation & Amortization Expense	87.8	78.3	75.7	121	205	271	340	432	568	976.80	1355.10
SG&A & Other Operating Expenses	881.4	983.7	1,169.5	1,560.0	2,057.0	2,689.0	3,452.0	4,300.0	6,131.0	9940.30	12813.46
Op Exp as % of Revenue	22.41%	18.69%	16.90%	18.37%	19.20%	18.13%	18.01%	17.54%	17.92%	20.35%	19.4%
R&D	215.6	207.8	251.2	451.0	662.0	818.0	1,033.0	1,240.0	1,734.0	2,757.2	3,824.8
R&D as % of Revenue	5.48%	3.95%	3.63%	5.31%	6.18%	5.51%	5.39%	5.06%	5.07%	5.64%	5.80%
Other SG&A	665.8	775.9	918.3	1,109.0	1,395.0	1,871.0	2,419.0	3,060.0	4,397.0	7183.10	8988.64
Other SG&A as % of Revenue	16.93%	14.74%	13.27%	13.06%	13.02%	12.61%	12.62%	12.49%	12.86%	14.71%	13.63%
OPERATING INCOME	$105.65	$270.75	$432.49	$474.00	$389.00	$664.00	$818.00	$1,183.00	$1,407.00	$843.20	$1,658.28
Nonoperating Income (Expense), Net	-201.79	-205.17	-75.22	2.00	-6.00	5.00	83.00	32.00	91.00	21.60	38.24
Interest Income	23.69	21.96	28.20	44.00	59.00	90.00	83.00	37.00	51.00	63.00	70.00
Interest Expense	142.93	129.98	107.23	92.00	78.00	77.00	71.00	34.00	39.00	57.80	70.76
Other Income (Expense)	-82.55	-97.14	3.81	50.00	13.00	-8.00	71.00	29.00	79.00	16.40	39.00
Extraordinary Expenses, Net	49.67	29.85	1.37	46.00	6.00	0.00	0.00	0.00	0.00	0.00	0.00
Financial Assets Impairment	8.10	2.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reorganization and Restructure Expense	41.57	0.14	9.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Legal Claim Expense	0.00	0.00	-6.00	40.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Unusual Expense	0.00	27.71	-1.67	6.00	6.00	0.00	0.00	0.00	0.00	0.00	0.00
Pre-Tax INCOME	-$145.81	$35.73	$355.89	$430.00	$377.00	$669.00	$901.00	$1,215.00	$1,498.00	$864.80	$1,696.52
Income Taxes	$0.00	$0.00	-$232.60	$95.00	$187.00	$184.00	$247.00	$253.00	$352.00	$259.44	$593.78
Equity-method investment activity, net of tax	-$4.20	-$0.40	$0.00	$0.00	$0.00	$0.00	-$9.00	-$6.00	$7.00	$2.00	$0.00
NET INCOME	-$150.01	$35.33	$588.49	$335.00	$190.00	$485.00	$645.00	$956.00	$1,153.00	$607.36	$1,102.74
NET INCOME available to Common	-$150.01	$35.33	$588.49	$335.00	$190.00	$485.00	$645.00	$956.00	$1,153.00	$607.36	$1,102.74
Weighted Average Diluted Shares	378	419	425	426	424	424	432	442	456	462	466
EPS	N/A	$0.08	$1.39	$0.79	$0.45	$1.14	$1.49	$2.16	$2.53	$1.31	$2.37
Realized Tax Rates:	-2.88%	-1.12%	-65.36%	22.09%	49.60%	27.50%	26.42%	20.33%	23.97%	30.00%	35.00%