

Amazon.com (AMZN)

Q4:13 Preview: Best Buy's Pain is Amazon's Gain; Expecting Top-Line Growth Above Consensus from Holiday Market Share Gains; Maintain NEUTRAL, \$330 PT

- Amazon will report Q4 results after the close on Thursday, January 30, and host a call to discuss results at 2:00pm PT (webcast: www.amazon.com/ir).
- We expect Amazon to report Q4 revenue well above consensus and our estimates as it continues to gain share from brick-and-mortar retailers; however, EPS remains unpredictable as the company's spending soaks up gross profit dollar growth. Our estimates are for revenue of \$25.95 billion and EPS of \$0.81, vs. consensus of \$26.06 billion and \$0.66, and guidance for revenue of \$23.5-26.5 billion. We modeled operating income of \$527 million vs. guidance of \$(500)-500 million, but our estimate may prove optimistic as Amazon has consistently sacrificed near-term profitability in order to drive long-term growth.
- **The day after Christmas, Amazon announced its best-ever holiday season setting several records.** Prime membership was so popular this holiday that the company limited new signups during peak periods to ensure that the surge in new membership did not impact current members' service.
- **Earlier this year, Amazon announced a record year for Marketplace Sellers as well.** Amazon announced that it will increase many of the Webstore and Fulfillment fees by Amazon this year. We see these fee increases as a signal of Amazon's confidence in leverage over third parties, and believe the increases are a leading indicator of company's intent to accelerate profits.
- **Other retailers bemoaned the competitiveness of holiday 2013.** Best Buy has had difficulty attracting new customers to its stores, and we believe that Amazon's addition of an estimated 10 million Prime members over the past two years was a key driver of reduced traffic to Best Buy and other traditional brick-and-mortar retailers this holiday. We expect Prime growth to continue at 5 million per year.
- **Maintaining our NEUTRAL rating and \$330 price target.** Our PT reflects a P/E multiple of 50x our hypothetical FY:19 EPS of \$8.38, discounted back five years. Our rating is based on our assessment that Amazon is unlikely to provide investors with a strategy road map. While recent announcements have given us increased visibility into Amazon's revenue growth, we are not convinced that the company will share sufficient details about spending plans to allow us to accurately model profit growth, and it could be a long time before EPS grows sufficiently to justify its share price.

January 27, 2014

Price
\$387.60

Rating
NEUTRAL

12-Month Price Target
\$330

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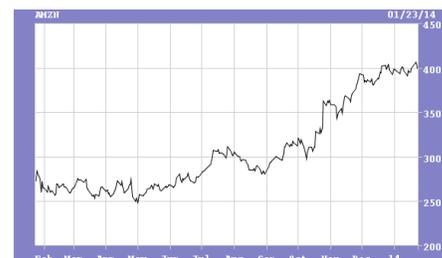
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Company Information

Shares Outst (M)	457
Market Cap (M)	\$177,133
52-Wk Range	\$245.75 - \$408.06
Book Value/sh	\$19.88
Cash/sh	\$10.17
Enterprise Value (M)	\$172,487
LT Debt/Cap	2%

Company Description

Amazon.com, Inc., based in Seattle, WA, is the world's largest online retailer. It offers "Earth's Biggest Selection" of products and services, and focuses on consumers, sellers, enterprises, and content creators.



Source: Thomson Reuters

FYE Dec	2012A	2013E			2014E		
REV (M)	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	\$13,185A	16,070A		--	19,580E		\$19,665E
Q2 Jun	12,834A	15,704A		--	19,260E		19,322E
Q3 Sep	13,806A	17,092A		--	20,897E		20,945E
Q4 Dec	21,268A	25,950E		26,057E	31,750E		31,596E
Year*	\$61,093A	74,816E		\$74,959E	91,487E		\$91,665E
Change	27.1%	22.5%			22.3%		
	2012A	2013E			2014E		
EPS	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	\$0.28A	\$0.18A		--	\$0.52E		\$0.54E
Q2 Jun	0.01A	(0.02)A		--	0.42E		0.43E
Q3 Sep	(0.60)A	(0.09)A		--	0.37E		0.37E
Q4 Dec	0.21A	0.81E		0.66E	1.60E		1.43E
Year*	(\$0.09)A	\$0.89E		\$0.73E	\$2.91E		\$2.65E
P/E	(4,502.1)x	433.8x			133.2x		
Change	-106.3%	-1137.8%			225.8%		

Consensus estimates are from Thomson First Call.

* Numbers may not add up due to rounding.

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RISKS

Risks to the attainment of our share price target include a lack of financial visibility, increasing competition, changes in consumer preferences, changes to the terms or economics of its agreements with its customers or suppliers, dependence on its shipping partners, macroeconomic factors, an evolving tax environment, and legal, regulatory, and security risks, among other factors.

INVESTMENT THESIS

Amazon is a dominant online retailer well on its way to becoming one of the world's largest retailers, in our view. We believe the company enjoys considerable advantages over its brick-and-mortar competitors, due to its low direct overhead. Amazon management is quite ambitious, expanding into expensive digital media through its Kindle hardware and Prime video streaming, depressing the company's earnings power. Similarly, the expansion of Amazon Web Services has thus far been quite costly, although we think that AWS is at a tipping point and will generate significant leverage going forward. In order to take a position in Amazon, we believe investors must make a leap of faith that its revenues will continue to grow and will generate high contribution margin; we have made the leap of faith on revenues, but the lack of visibility on contribution margin gives us pause, and we prefer to stay on the sidelines. Accordingly, we are maintaining a NEUTRAL rating on Amazon shares.

Analyst Biography

Michael Pachter is the Managing Director of Equity Research, covering the Digital Media sector, and is also the Head of Research for the Private Shares Group. He has been recognized as StarMine's "Top Earnings Estimator" for a number of years and "Best on the Street" by the Wall Street Journal. Michael brings over 20 years of experience as a financial professional to both the Equity Research Department and the Private Shares Group along with extensive knowledge across the social media sector in both public and private companies.

Mr. Pachter holds an M.B.A. from the Anderson School at the University of California at Los Angeles, a Juris Doctor from Pepperdine University, an LL.M. in Taxation from the University of Florida, and a bachelor's degree in Political Science from California State University, Northridge.

Michael's Edge: Michael has over 30 years of work experience, holding various financial and management positions in industry and having been at Wedbush for 13 years. Michael is one of the most quoted and outspoken analysts in the Video Games Sector and is often among the first called by journalists covering the sector. Michael's breadth of industry knowledge and contacts in the entertainment industry provides him with exceptional insights into industry trends and ideas. Michael believes he is the "Why" and "What's Next" source that investors turn to for insights into why events are happening in the sector and how they will progress.

Covered Companies Mentioned in this Report (priced as of close January 24, 2014)

COMPANY	TICKER	RATING	PRICE	PRICE TARGET
BESTBUY	BBY	UNDERPERFORM	\$25.02	\$18

Analyst Certification

I, Michael Pachter, Nick McKay, Nick Citrin, certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

Disclosure information regarding historical ratings and price targets is available at <http://www.wedbush.com/ResearchDisclosure/DisclosureQ413.pdf>

Investment Rating System:

Outperform: Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

Neutral: Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

Underperform: Expect the total return of the stock to underperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst's coverage universe (or the analyst's team coverage).*

Rating Distribution (as of December 31, 2013)	Investment Banking Relationships (as of December 31, 2013)
Outperform: 54%	Outperform: 18%
Neutral: 43%	Neutral: 2%
Underperform: 3%	Underperform: 0%

The Distribution of Ratings is required by FINRA rules; however, WS' stock ratings of Outperform, Neutral, and Underperform most closely conform to Buy, Hold, and Sell, respectively. Please note, however, the definitions are not the same as WS' stock ratings are on a relative basis.

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Wedbush Equity Research Disclosures as of January 27, 2014

Company	Disclosure
Amazon.com	1
Best Buy	1

Research Disclosure Legend

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2. WS managed a public offering of securities within the last 12 months.
3. WS co-managed a public offering of securities within the last 12 months.
4. WS has received compensation for investment banking services within the last 12 months.

5. WS provided investment banking services within the last 12 months.
6. WS is acting as financial advisor.
7. WS expects to receive compensation for investment banking services within the next 3 months.
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9. WS has received compensation for products and services other than investment banking services within the past 12 months.
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12. The analyst maintains Contingent Value Rights that enables him/her to receive payments of cash upon the company's meeting certain clinical and regulatory milestones.

Price Charts

Wedbush disclosure price charts are updated within the first fifteen days of each new calendar quarter per FINRA regulations. Price charts for companies initiated upon in the current quarter, and rating and target price changes occurring in the current quarter, will not be displayed until the following quarter. Additional information on recommended securities is available on request.

AMZN

1) 09/10/13 NEUTRAL \$330



BBY

1) 03/25/11 NEUTRAL \$31	2) 09/09/11 NEUTRAL \$27	3) 12/09/11 NEUTRAL \$25	4) 03/30/12 NEUTRAL \$23	5) 05/22/12 NEUTRAL \$20	6) 08/22/12 UNDERPERFORM \$14.50	7) 11/20/12 UNDERPERFORM \$9
8) 12/19/13 UNDERPERFORM \$18						



* WS changed its rating system from (Strong Buy/Buy/Hold/Sell) to (Outperform/ Neutral/Underperform) on July 14, 2009. Please access the attached hyperlink for WS' Coverage Universe: <http://www.wedbush.com/services/cmgequities-division/research/equity-research> Applicable disclosure information is also available upon request by contacting Ellen Kang in the Research Department at (213) 688-4529, by email to ellen.kang@wedbush.com, or the Business Conduct Department at (213) 688-8090. You may also submit a written request to the following: Business Conduct Department, 1000 Wilshire Blvd., Los Angeles, CA 90017.

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