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Amazon.com, Inc. (AMZN.O)

1st Order: AWS Growth Accelerates to +37% Y/Y, AI ARR Exceeds $25B, and NA Retail Margins +40bps Y/Y

CITI'S TAKE

Amazon delivered better than-expected 2Q results and 3Q guidance across revenue and OI with AWS revenue growth accelerating to 37% Y/Y, ~4% above FactSet consensus. Revenue of $200.6B (+20% Y/Y ex-FX) came in ~2% above consensus and OI of $27.5B came in 15% above the high-end of guidance. AWS revenue growth accelerated to +37% Y/Y, 4% above consensus and we believe above buyside expectations, as Amazon's AI and chips ARR each reached $25B vs. $15BN ARR and $20BN ARR in 1Q, respectively, with each growing triple digits Y/Y. And with NA revenue +16% Y/Y, NA retail margins expanding 40bps Y/Y to 7.9%, and advertising revenue +26% Y/Y ex-FX, **we believe Amazon is executing very well.** 3Q revenue guidance came in ~2% below consensus at the midpoint (though excluding Prime Day, guidance would have been 400bps higher), while 3Q OI guidance of $22.5-$26.5B compares to consensus of $25B.

Buy	
Price (30 Jul 26 16:00)	US$235.50
Target price	US$325.00
Expected share price return	38.0%
Expected dividend yield	0.0%
Expected total return	38.0%
Market Cap	US$2,533,299M

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- **On the call, we'll be focused on: 1)** Driver of AWS growth and AI demand with a focus on Amazon's Frontier Model strategy following its reorg at AGI and Nova models (we note 2Q marks the first full quarter of GPT models on Bedrock); **2)** Prime Day contributions and insights on Alexa+ adoption and Agentic Commerce; **3)** NA retail margins including insights on ASCS adoption; **4)** Amazon Leo commercialization given its 396 satellites in Leo and impacts to OpEx and CapEx in 4Q; and **5)** Hints/Insights into '27E CapEx, particularly if AMZN is rethinking its FM model strategy.

- **Overall Results: Revenue and OI Above Expectations:** Revenue of $200.6 billion (+20% Y/Y, +20% Y/Y ex-FX) came in ~2% above consensus and compares to guidance of $194-$199 billion. OI of $27.5 billion (13.7% margin) came in ~17% above consensus and 15% above the high-end of guidance of $24 billion. GAAP EPS of $5.75 compares to consensus of $1.81 and includes a benefit from $53B in other income.

- **AWS Revs +37% Y/Y & Margin of 39.4%**: AWS revenue of $42.2 billion delivered accelerating growth to +37% Y/Y, ~4% above consensus with AWS operating margins of 39.4%, above our 33.5% expectation during a quarter whereby margins usually contract Q/Q on SBC grants.

- **N.A. & International Retail Results Suggest a Resilient Consumer**—N.A. retail revenue of $116 billion (+16% Y/Y, +16% Y/Y ex-FX) was ~2% above consensus and International retail revenue of $42.2 billion (+15% Y/Y, +15%

Y/Y ex-FX) came in ~1% below consensus. NA Retail OI was $9.1 billion (7.9% margin), above our $8.4 billion projection.

- **3Q Guidance Strong Once Adjusting for Prime Day**: 3Q revenue guidance of $197-$202 billion was 2% below consensus and we note assumes ~80 bps of unfavorable impact from FX. That said, growth would be 400bps faster had Prime Day remained in 3Q suggesting guidance would have been better than consensus. 3Q Operating Income guidance of $22.5-$26.5 billion compares to consensus of $25 billion.

Figure 1. AMZN 2Q Results vs. Projections

			2Q		Y/Y % Change		
	2Q25A	1Q26A	2Q26E	2Q26A	2Q26E	2Q26A	vs. Estimate
Sales by Product/Service Groups							
Online stores	[illegible]	[illegible]	70,493	70,432	[illegible]	[illegible]	[illegible]
Physical stores	[illegible]	[illegible]	5,883	5,794	[illegible]	[illegible]	[illegible]
Third-party seller services	[illegible]	[illegible]	46,663	46,780	[illegible]	[illegible]	[illegible]
Subscription services	[illegible]	[illegible]	13,752	13,730	[illegible]	[illegible]	[illegible]
AWS	[illegible]	[illegible]	40,907	42,232	[illegible]	[illegible]	[illegible]
Advertising	[illegible]	[illegible]	19,327	19,809	[illegible]	[illegible]	[illegible]
Other	[illegible]	[illegible]	1,629	1,829	[illegible]	[illegible]	[illegible]
Total Sales	**167,702**	**181,519**	**198,653**	**200,606**	**18.5%**	**19.6%**	**1.0%**
Sales by Segment							
North America	[illegible]	[illegible]	115,470	116,177	[illegible]	[illegible]	[illegible]
International	36,751	39,789	42,276	42,197	15.0%	14.8%	-0.2%
AWS	[illegible]	[illegible]	40,907	42,232	[illegible]	[illegible]	[illegible]
Operating Income by Segment							
North America	7,517	8,267	8,429	9,123	12.1%	21.4%	8.2%
% OI Margin	[illegible]	[illegible]	7.3%	7.9%			
International	1,494	1,424	1,733	1,717	16.0%	14.9%	-0.9%
% OI Margin	[illegible]	[illegible]	4.1%	4.1%			
AWS	10,160	14,161	13,704	16,621	34.9%	63.6%	21.3%
% OI Margin	[illegible]	[illegible]	33.5%	39.4%			
Operating Expenses & Profitability							
Gross Profit	[illegible]	[illegible]	103,498	105,036	[illegible]	[illegible]	[illegible]
Fulfillment	[illegible]	[illegible]	29,202	28,869	[illegible]	[illegible]	[illegible]
Technology and Content	[illegible]	[illegible]	29,798	29,457	[illegible]	[illegible]	[illegible]
Marketing	[illegible]	[illegible]	11,919	10,853	[illegible]	[illegible]	[illegible]
General and Administrative	[illegible]	[illegible]	2,681	2,268	[illegible]	[illegible]	[illegible]
GAAP Operating Income	**19,171**	**23,852**	**23,866**	**27,461**	**24.5%**	**43.2%**	**15.1%**
EBITDA	37,942	47,276	56,293	53,577	48.4%	41.2%	-4.8%
GAAP EPS	$1.68	$2.78	$1.86	$5.75	10.6%	241.8%	209.1%
% of Revenue							
Gross Margin	[illegible]	[illegible]	**52.1%**	**52.4%**			
Fulfillment	[illegible]	[illegible]	14.7%	14.4%			
Technology and Content	[illegible]	[illegible]	15.0%	14.7%			
Marketing	[illegible]	[illegible]	6.0%	5.4%			
General and Administrative	[illegible]	[illegible]	1.3%	1.1%			
Operating Margin	[illegible]	[illegible]	**12.0%**	**13.7%**			
EBITDA Margin	[illegible]	[illegible]	28.3%	26.7%			

Source: Citi Research, Company Reports

Amazon.com, Inc.

Valuation

Our $325 TP is based on ~30x our '27E P/E and implies ~11x 2027E EV/EBITDA, which is at the lower-end of Amazon's trading multiple over the past decade. We note Amazon's leading position within AWS and eCommerce, its Prime membership base, growing online advertising business, and improving overall margins, which combined deserve a premium to the market, in our view.

Risks

Key risks to shares achieving our price target include: (i) Macroeconomic given rising inflation and the impact a recession could have on consumer demand; (ii) the potential for Amazon to ramp its investment cycle impacting margin expansion; (iii) greater competition in the Cloud that could impact pricing; and (iv) regulatory risk in the U.S. and Europe, and we note the recently passed Digital Markets Act in Europe.