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# Amazon.com, Inc. (AMZN.O)

## Advertiser ROAS Continues to Expand; Thoughts on the FTC's Sponsored Ads Lawsuit Against Amazon

**CITI'S TAKE**

Earlier today, the FTC and 22 states filed a suit alleging Amazon's advertising practices overcharged its ~1.2M advertisers by $20B+ from 2019 to present via undisclosed reserve-pricing mechanisms ultimately increasing costs for advertisers and consumers. Amazon responded with data underscoring improving advertiser ROAS over the same period as its inflation-adjusted Sponsored Products CPCs remained flat over 2019-2024 as conversion rates increased 24%+ during 2021-2025. While we recognize the concern of an FTC suit, we would take advantage of any dislocation in shares given our view that advertisers continue to allocate greater spend to Amazon based on results, that AI demand trends at AWS are accelerating, continued retail tailwinds (as Agentic Commerce rises), and expanding profitability. Amazon remains our top pick, and we reiterate our Buy rating and $350 TP.

| **Buy** | |
|---|---|
| Price (31 Aug 26 16:00) | US$259.77 |
| Target price | US$350.00 |
| Expected share price return | 34.7% |
| Expected dividend yield | 0.0% |
| Expected total return | 34.7% |
| Market Cap | US$2,801,961M |

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Jake Hallac, CFA

Jamesmichael Sherman-Lewis

- **The FTC Alleges Amazon Inflated Advertising Prices Have Resulted in $20B+ of Advertiser Overcharges Since 2019...** The FTC and 22 states allege that Amazon's ~1.2M advertisers, including 500K+ small and medium-sized businesses, paid 'hidden' advertising surcharges through undisclosed reserve-pricing mechanisms. The complaint contends that Amazon described Sponsored Ads as generalized second-price auctions while moving Sponsored Products closer to first-price auction dynamics with the share of clicks charged at the winning bid increasing from 30%-40% in 2021 to 70% in 2022 and 79.1% in 2024. The plaintiffs seek injunctive and monetary relief, although several key surcharge rates and revenue figures remain redacted;

- **...Yet Amazon's Reported Sponsored Products CPCs Were Flat as Conversion Rates Rose 24%+ during 2021-2025—**Said another way, Amazon contends advertisers are receiving greater value from its platform while pricing was flat and that its ad platform has saved advertisers $8 billion over the same period given its investments in ad relevancy tools. In fact, Amazon believes that its pricing model can deliver 58%+ higher sales, with 46%+ better ROAS and 58% greater exposure, based on its ad relevancy tools and platform. And with 2Q Ads revenue accelerating to +26% Y/Y to $19.8 billion across Sponsored Products, Video, Display, and its DSP for its network partners, we believe Amazon's ad platform is a required spend for advertisers.

- **Shares of Amazon declined 2.5% to $259.77 following the news of the FTC suit and currently trade at ~23.5x our 2027E EPS of $11.06.** But given

**See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations**

our view that AWS revenue growth could continue to accelerate in 2H26 on AI tailwinds (we highlight AWS' recently announced NVDA partnership for 2M+ GPUs to be deployed in 2027-28E), that Amazon's Retail business is gaining share of wallet and doing so as Agentic Commerce (with Alexa Shopping) improves conversion rates, and expanding profitability, we would take advantage of any dislocation in shares. Our $350 TP is based on ~31.5x our 2027E P/E and implies ~11x our 2027E EV/EBITDA, which is at the lower end of Amazon's trading multiple over the past decade. We justify our target price valuation given Amazon's accelerating AI demand and AWS growth, greater Retail market share, and margin expansion trends across its Retail and AWS businesses.



# Amazon.com, Inc.

## Valuation

Our $350 TP is based on ~31.5x our '27E P/E and implies ~11x our 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 margin profile, 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.