

# **Operational and Strategic Performance Review**

# **OVERVIEW AND SEGMENTS**

### **COMPANY SNAPSHOT**



Qui	ck Facts		Company Overview				
Headquarters	Seattle, Washington	It started its operation as	ne leading online retailer in the world. A Seattle-based online bookstore in 1995, and have				
CEO	Jeff Bezos	growth significantly since inception to spread its operation to five areas, namely retail, logistics, consumer technology, cloud computing, and most recently, media and entertainment.					
Founded	1995	<ul> <li>The company accounts for nearly 5% of the total online retail spend in the US.</li> <li>Amazon operates through three segments, North America, International and AWS</li> <li>The company offers its products and services to consumers, sellers, developers and enterprises and content creators</li> <li>The company encompasses competition from wide range of industry players</li> </ul>					
Revenue (2016)	\$135.98 billion						
Employees	341,400	including online retailers, electronics manufacturers,	publishers, logistics services providers, consumer IT services providers etc.				
Am	azon Sales in \$mi	lion (2012-2016)	Segment Revenue Split				
			Segment Revenue Spirt				
61,093	88,988 74,452	1,35,987 1,07,006	Segment Revenue Spirt				

Source: Company Website, LinkedIn, CrunchBase, Bloomberg, CB Insights

# PRODUCTS AND BRANDS (1/2)



	Amazon sells over 500 million products to				
	Amazon I	Brands (1/2)			
amazon	The largest Internet-based retailer in the world by total sales and market capitalization.	amazondrive	Get unlimited online storage to backup, protect and share photos, videos and files from any device.		
amazonadvertising	Connect your brand to Amazon customers wherever they share, read, listen, purchase, research and download online, across devices.	amazon echo	Amazon Echo is a hands-free speaker you control with your voice. Echo connects to the Alexa Voice Service to play music, provide information, news, sports scores, weather, and more—instantly. All you have to do is ask.		
a mazon alexa	Amazon's voice control system.	Fire OS	An Android-based operating system by Amazon for its Fire Phone and Kindle Fire range of devices.		
amazonbusiness	Everything you love about Amazon. For work.	<b>fire</b> PHONE	A 3D-enabled smartphone designed and developed by Amazon.		
		azon Brands (1/2)         amazon crive       Get unlimited online storage to backup, share photos, videos and files from any share photos, videos and files from any our voice. Echo connects to the Alexa play music, provide information, news, weather, and more—instantly. All you to the fire OS         Fire OS       An Android-based operating system by Fire Phone and Kindle Fire range of dev         ering for       fire       A 3D-enabled smartphone designed a by Amazon.         amazon fireTV       Amazon Fire TV is a tiny box connected offers access to over 250,000 TV episo on Netflix, Amazon Instant Video, and Fire	A tablet designed and developed by Amazon.		
amazon dash	Amazon Dash is a consumer goods ordering service which uses a proprietary device for ordering goods over the Internet.	amazon fireTV	Amazon Fire TV is a tiny box connected with HDTV. It offers access to over 250,000 TV episodes and movies on Netflix, Amazon Instant Video, and HBO NOW, plus games, music, and more.		

## PRODUCTS AND BRANDS (2/2)



over 300 million users						
Amazon Brands (2/2)						
	Amazon Kindle is a series of e-readers by Amazon.com that enable users to browse, buy,	amazon tap	A portable Bluetooth and Wi-Fi enabled speaker that gives you rich, full-range sound.			
amazonkindle	download and read e-books, newspapers, magazines and other digital media via wireless networking to the Kindle Store.	amazon video direct	Helping content creators and visual storytellers reach millions of Amazon customers across hundreds of devices with the			
amazon.com	Amazon Prime is a paid service that gives Amazon shoppers a few distinct advantages. Members of Amazon Prime are	amazon video direct en n en	same distribution options and delivery quality available to major motion picture and television studios.			
- prime	eligible for free one- or two-day shipping on most items, among several other perks		Amazon Web Services offers a suite of cloud- computing services that make up an on- demand computing platform.			
amazon Prime Air	Amazon Prime Air is a future service that will deliver packages up to five pounds in 30 minutes or less using small drones.	amazonWorkDocs	Amazon WorkDocs is a fully managed, secure enterprise storage and sharing service with			
prime now	Prime Now offers household items and essentials you need every day plus the best of	Brands (2/2) amazontap amazon video direct	strong administrative controls and feedback capabilities that improve user productivity.			
	Amazon, with FREE 2-hour delivery.		Amazon WorkSpaces is a fully managed, secure desktop computing service which runs			
amazon story writer	Amazon Storywriter is a cloud-based screenwriting app.	amazonWorkSpaces	on the AWS cloud.			
		(a) Alexa	An Amazon company that provides commercial web traffic data and analytics.			

# **INNOVATION AND USE OF TECHNOLOGY**



#### Amazon is significantly investing in technologies such as Robotics and Drones



We've changed, again, the automation, the size, the scale many times, and we continue to learn and grow there

#### Brian Olsavsky, CFO



#### Amazon is currently using more than 45,000 robots in its warehouses

- In 2012, Amazon invested \$775 million and acquired Kiva Systems which is specialized in designing robots for picking and packing process in a large warehouse.
- In 2014, the company started with 14,000 robots across 10 warehouses. In 2015, the company increased the number by more than 50% to 30,000 robots. In 2017, the company has 45,000 robots across 20 warehouses.
- In order to improve the robotic platform in their fulfillment centers, Amazon is organizing Robotic Challenge where different universities and institutions are participating across the globe. In the third annual Robotic Challenge 2017, Amazon is offering \$250,000 to teams who will invent next-generation robots for their fulfillment centers.

### Amazon filed patent to initiate its drone delivery

- Besides selling products, Amazon is looking to develop the product delivery system through drones. In Britain, Amazon already running pilot projects on its drone service named as Amazon Prime Air Service.
- Recently, the US Federal Government has approved drone pilot program for package delivery in the US.
- Amazon has recently filed numerous patents, such as package delivery through drones beehives in cities, drone delivery though package parachutes and floating airship warehouse for its drone delivery.
- Recently, Amazon received a patent for a new method to charge electric vehicles (EV) through drones. In this process, the drone will dock with the vehicle and transfer power to the car. During the power transfer, the car does not require to stop.

the car. During the power transier, the car does not require to stop



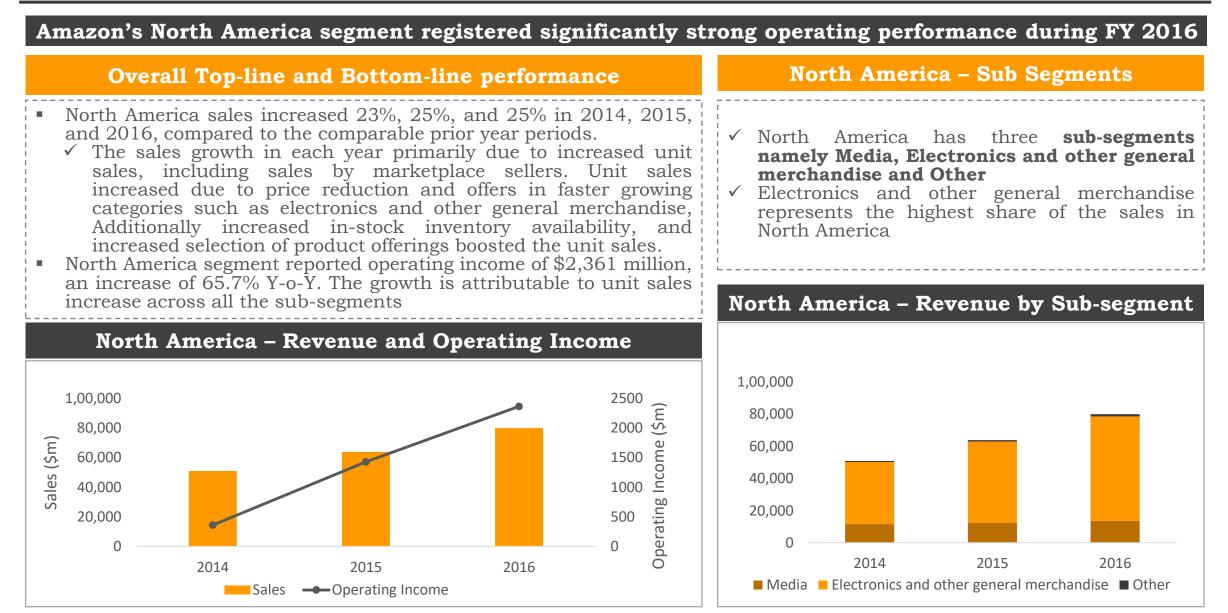
### **Segments Overview**

The segment includes amounts earned from retail sales of consumer products (including from sellers) and subscriptions through North America-focused websites

10	North America	North America International		
Segments	(including from sellers) and subscriptions through North America-	International segment includes of amounts earned from retail sales of consumer products and subscriptions through internationally-focused websites.	The AWS segment consists of amounts earned from global sales of compute, storage, database, and other service offerings for start-ups, enterprises, government agencies, and academic institutions.	
S	BEST ON NETFLIX	E2. 6	Microsoft	
petitor	BUY Peapod TARGET	Alibaba Group Woolworths	IEM. Google	
Com	Walmart 2 ebay	Rakuten	ORACLE	
	eCommerce	Flipkart 🙀 🖓 JD.京东		

## SEGMENT PERFORMANCE – NORTH AMERICA

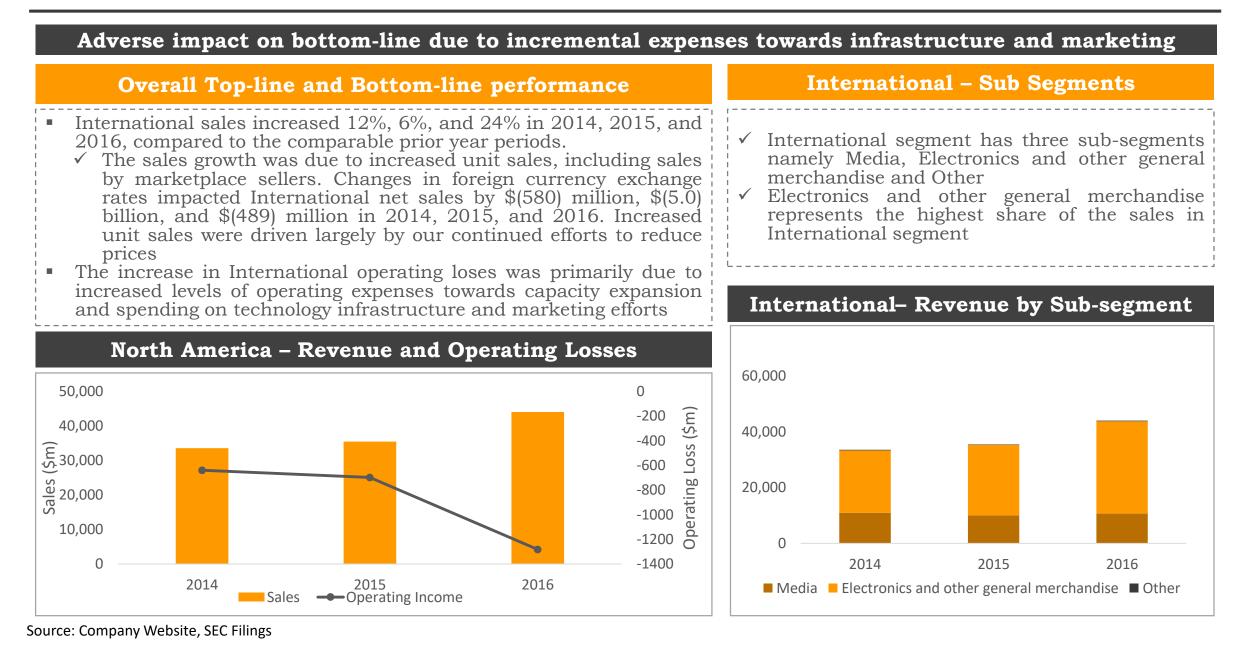




Source: Company Website, SEC Filings

## **SEGMENT PERFORMANCE – INTERNATIONAL**





### **SEGMENT PERFORMANCE – AWS**



AWS is the most rapidly g	rowing segment of Amazon
<b>Overall Top-line and Bottom-line performance</b>	North America – Revenue and Operating Losses
<ul> <li>AWS sales increased 49%, 70%, and 55% in 2014, 2015, and 2016, compared to the comparable prior year periods.</li> <li>✓ The sales growth primarily reflects increased customer usage, partially offset by pricing changes. Pricing changes were driven largely by our continued efforts to reduce prices for our customers.</li> <li>The increase in AWS operating income in absolute dollars in 2014, 2015, and 2016, compared to the comparable prior year periods</li> </ul>	14,000 12,000 (m 10,000 2,000 0 2014 2015 2016 3500 3000 2000 1500 1500 1000 500 0 0 2014 2015 2016
✓ Growth was primarily due to increased customer usage and cost structure productivity, partially offset by pricing changes and increased spending on technology infrastructure, which was primarily driven by additional investments to support the business growth. Changes in foreign exchange rates impacted operating income by \$41 million, \$264 million, and \$(5) million for 2014, 2015, and 2016.	commerce business' 25% vs. 3% which allowed the segment to contribute 74% of Amazon's

# FINANCIALS

## FINANCIAL PERFORMANCE



		AWS 1	s the mo	ost rapic	ily growi	ng :	segment of Amazon
Amazon had co	nsistent	revenue	growth	in last	decade		Increasing Operating Margin
<ul><li>The consistent unit sales acros</li><li>All the segmen growth during</li></ul>	Amazon's sales more than doubled during the last five years. The consistent growth in sales was attributable to increase in unit sales across several geographies. All the segments of the company reported consistent sales growth during the last five years. AWS segment reported highest growth in FY 2016, reflecting increased customer					the last five years. This was attributable to increase in sales which was partially offset by high capital expenditure in the international segment	
	2012	2013	2014	2015	2016		1,35,987
Revenue (\$m)	61,093	74,452	88,988	1,07,006	1,35,987		1,07,006
Gross Margin %	24.8	27.2	29.5	33	35.1		88,988
Operating Income							74,452

61,093

.1

2012

1.0

2013

Sales

0.2

2014

----Operating Margin

2015

2016

Revenue (\$m)	01,093	17,734	00,900	1,07,000	1,33,907
Gross Margin %	24.8	27.2	29.5	33	35.1
Operating Income (\$m)	676	745	178	2,233	4,186
	010	110	110	2,200	1,100
Operating Margin %	1.1	1	0.2	2.1	3.1
		074	0.41	FOC	0.051
Net Income (\$m)	-39	274	-241	596	2,371
Earnings Per Share (\$)	-0.09	0.59	-0.52	1.25	4.9

### Source: Company Website, SEC Filings

## **STOCK PERFORMANCE**



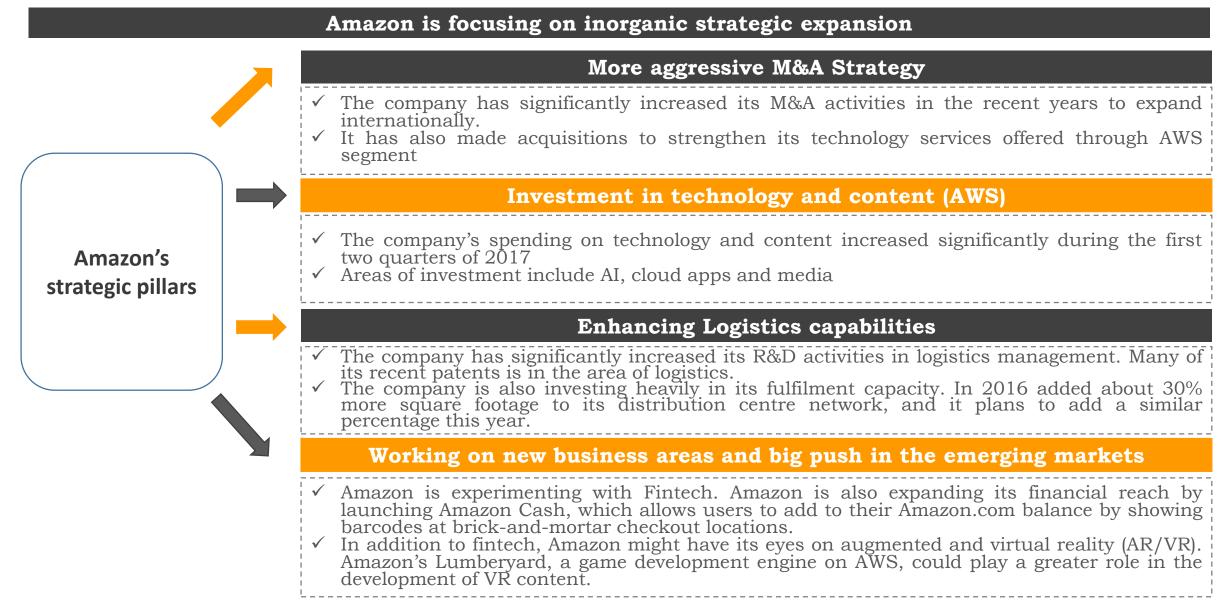


Source: Yahoo Finance, Google Finance

**STRATEGIC REVIEW** 

## **STRATEGIC OUTLOOK**

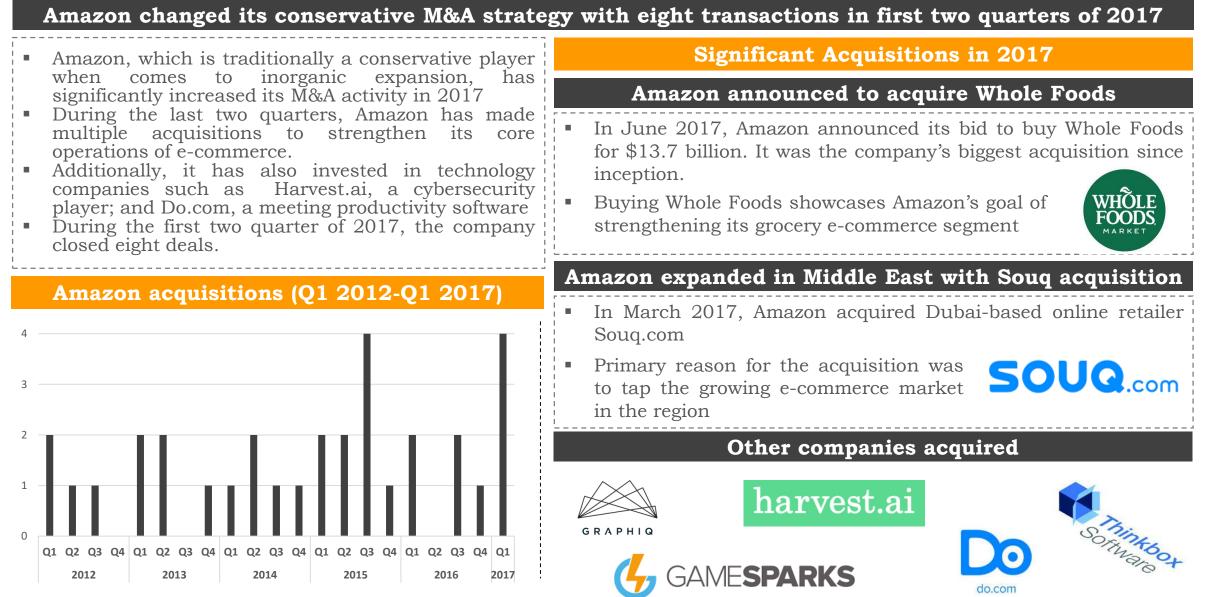




Source: Company Website, SEC Filings, CB Insights, Reuters, Call Transcripts

# MERGERS AND ACQUISITIONS (1/2)



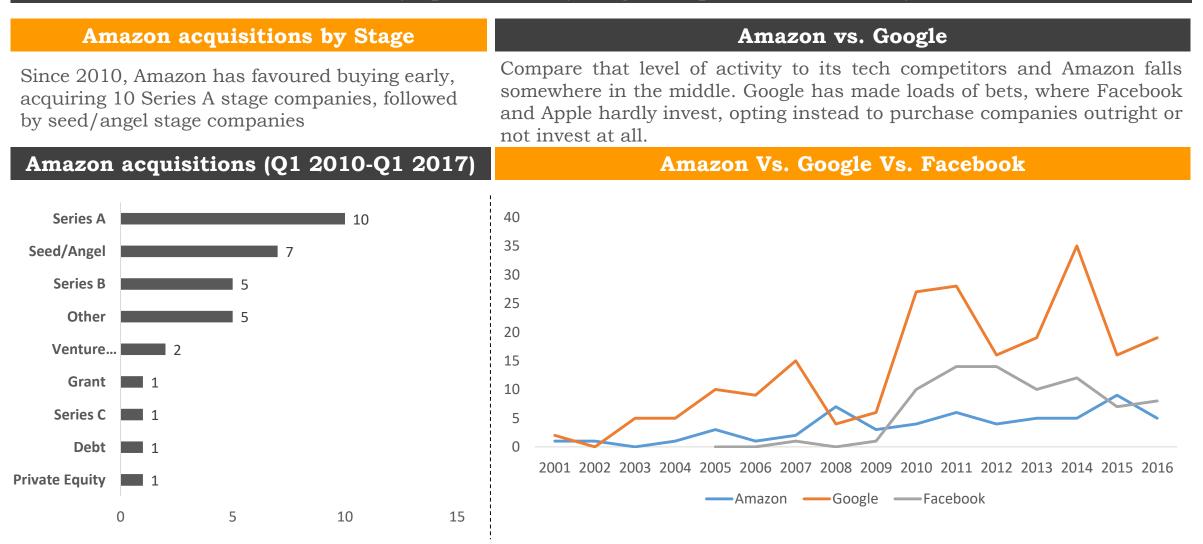


Source: Company Website, SEC Filings, CB Insights, Reuters, TechCrunch

## MERGERS AND ACQUISITIONS (2/2)



#### Amazon mostly spent on early stage companies in last five years



Source: Company Website, SEC Filings, CB Insights, Reuters, TechCrunch

## **INVESTMENTS IN TECHNOLOGY**



Amazon is significantly invest	ing in Artificial Intelligence
Amazon focusing on AI and Machine learning to	"Alexa Everywhere" - Strategy
<ul> <li>Amazon is focusing to strengthen its AWS segment and its venture Alexa through multiple investments in the area of AI.</li> <li>In October 2017, the company announced new research centre in Germany focused on developing AI to improve the customer experience</li> <li>During the same month the company and Microsoft partnered to roll out new tools that will make it easier for developers to use open-source artificial intelligence software. Developers can use Gluon, a Python-based application programming interface, to more easily work with MXNet, the AI framework backed by public cloud market leader Amazon Web Services.</li> </ul>	$\checkmark$ The Fire TV set-top box was launched with

The outside world can push you into Day 2 if you won't or can't embrace powerful trends quickly. If you fight them, you're probably fighting the future. Embrace them and you have a tailwind.

These big trends are not that hard to spot (they get talked and written about a lot), but they can be strangely hard for large organizations to embrace. We're in the middle of an obvious one right now: **machine learning and artificial** intelligence.

Jeff Bezos, CEO Amazon in letter to the shareholders

### **INVESTMENTS IN TECHNOLOGY**



Amazon is significantly investing in Cloud Technology				
Increasing Investment in Cloud Technology	Partnerships			
computing space and invested on businesses based on cloud. In Early 2017, the company acquired a number of	<ul> <li>communicate with each other and will offer voice assistant to the users.</li> <li>In order to increase the usage of cloud technology, Amazon web Services (AWS) is investing to open data centers in Britain and France.</li> </ul>			

Ensuring Cortana is available for our customers everywhere and across any device is a key priority for us. Bringing Cortana's knowledge, Office 365 integration, commitments, and reminders to Alexa is a great step toward that goal.

Satya Nadella, CEO Microsoft

## **INVESTMENTS IN ORIGINAL CONTENT**



#### Amazon is investing heavily on original content

- Amazon is on a massive content binge. It's been rapidly acquiring movies, TV shows and documentaries in recent months as it looks to compete with streaming rivals Netflix and Apple, both of which are also increasingly developing original TV shows and movies.
- Most of Amazon's original content is streamed for Amazon Prime members as well as for members of the subscription service's newly launched video-only plan, which costs \$8.99 per month.
  - ✓ Amazon CFO Brian Olsavsky said Amazon planned to triple the amount of original content over the rest of the year, and it's probably safe to assume that its torrid investment pace will continue into 2017.

#### **Higher Spend on Prime**

Amazon is investing heavily in Prime Video. The company doubled its content budget in the second half of 2016, as it prepared to expand globally, and it produced three times as many original titles compared to the year before.

Amazon has an estimated 80 million Prime members in the U.S.; Netflix has just over 50 million subscribers. But Comscore says less than 17 million Prime households actively stream content from Prime Video.

#### **Pushing Prime in Europe**

- After the great success of Prime in the U.S., Amazon is pushing the same playbook in Europe.
- Amazon plansto start by stocking small warehouses in urban centers to support Prime Now and Amazon Fresh, its grocery delivery service.
  - ✓ Analysts expect Germany to see a rapid expansion in online grocery delivery, according to a report from eMarketer. Amazon's warehouse purchase plans include taking advantage of that market opportunity.

# ENHANCING LOGISTICS CAPABILITIES (1/2)

### Amazon is focusing on enhancing its logistics capabilities



#### Amazon announced increase in number of fulfilment centres

- Amazon opened **23 new fulfillment centers** in the second half of 2016, as compared to only three new fulfillment centers opened in the first half of the year.
- New fulfillment centers helped drive Amazon's total square footage at its warehouses up by 30% for the year, versus a 20% increase in square footage in 2015.
- The company plans to continue investing heavily in expanding fulfillment centers and other logistics capabilities.
- Driving further growth in the number of sellers and packages going through FBA is a key focus. Amazon is
  expected to invest in further warehouse and logistics capacity to handle that volume, with that investment
  being more balanced between North America and other geographies.



### **Investing in Logistics App**

- To strengthen logistics and delivery network, Amazon announced to develop an Uber-like app to match truck drivers with cargo.
- Amazon hired aggressively for the project and announced to launch it in 2017. The trucking software would integrate pricing, driving directions, and trucker-specific data like truck stop options.

### **Drone Delivery**

amazon

- In March 2017, Amazon has conducted public demo of its Prime Air delivery drones in the US
- Initially the concept has multiple regulatory barriers. However, the situation might get better as in October 2017, the Trump Government issued an order giving local governments more authority to conduct tests of such new technologies.

ENHANCING LOGISTICS CAPABILITIES (2/2)



#### Amazon Testing Own Delivery Service

- Amazon.com Inc. is experimenting with a new delivery service intended to make more products available for free two-day delivery and relieve overcrowding in its warehouses.
- The service began two years ago in India, and Amazon has been slowly marketing it to U.S. merchants in preparation for a national expansion
  - ✓ Amazon named the project Seller Flex. The service began on a trial basis this year in West Coast states with a broader rollout planned in 2018
  - ✓ Amazon will oversee pickup of packages from warehouses of thirdparty merchants selling goods on Amazon.com and their delivery to customers' homes
- Handling more deliveries is expected to provide Amazon a greater flexibility and control over the last mile to shoppers' doorsteps

### **Logistics Partnership**

 Amazon is also focusing on logistics partnership to strengthen its network

E.Leclerc

- ✓ In October 2017, French supermarket operator Leclerc was approached by Amazon for a possible logistics partnerships
- ✓ This probable collaboration shows Amazon's intentions to expand in the supermarket sector.

Source: Company Website, SEC Filings, CB Insights, Reuters, TechCrunch

Immediate Impact on UPS and FedEx share prices

- UPS shares fell as much as 2.1% to \$116.52, and were trading down 1.3% at 10:32 A.M. in New York on October 4<sup>th</sup>, 2017.
- FedEx dipped as much as 1.6% to \$217.77
   before recovering somewhat to \$220.09 on
   October 4<sup>th</sup>, 2017.

#### 78 patents on Logistics in 2016

78 of Amazon's 2016 patents were focused on developing its logistics network, which is already far more than just a few years ago.



### Patents per year 2009-2016

# **New Businesses and Emerging Market**



#### Amazon is working on new business areas and big push in the emerging markets

#### **New Business Areas**

#### Amazon is experimenting with fintech initiatives and intends to become a prominent player in the fintech segment.

- ✓ Amazon nearly lent out \$1 billion in small loans in 2016.
- ✓ In India, the company is offering thousands of loans to e-sellers so suppliers can expand their operations and manage seasonal spikes
- ✓ Amazon is also expanding its financial reach by launching Amazon Cash, which allows users to add to their Amazon.com balance by showing barcodes at brick-and-mortar checkout locations.

"Amazon is the most formidable. If Amazon can get you lowerdebt payments or give you a bank account, you'll buy more stuff on Amazon."

Alex Rampell, Partner, Andreessen Horowitz

Amazon is making big moves in the emerging market. One of the key international market targeted by Amazon is India, which is perceived to become one of the fastest growing e-commerce market globally in the near future

**Push in the Emerging E-commerce Markets** 

✓ In Late 2016, the company's CEO Jeff Bezos announced an additional investment of \$3 billion in India, taking its net investment to over \$5 billion in the country. This is more than the company's total capital expenditure of \$4.5 billion in 2016

In October 2017, **Amazon announced to expand in Brazil.** The company announced to enter the electronics and appliances marketplace in Brazil.

Amazon also expanded its operations in Middle East, one of the fastest growing e-commerce market in the world. It acquired Souq in UAE to serve the local market. In September, Amazon-owned Souq acquired Wing.ae, a startup that is building out a network for Prime-style same-day and next-day deliveries for various e-commerce marketplaces

# **INVESTMENT LANDSCAPE**

# **INVESTMENT – AMAZON CORPORATE INVESTMENT**



#### Amazon is investing behind a wider variety of industries

Deal growth

(yoy)

-100%

N/A

#### **Investment Overview**

- In the recent past years, Amazon faced slow down in the financial activity, however, during the time company invested in a variety of industries. During the period 2011-2013, the company mostly invested in the internet companies.
- During 2014-2016, the company changed its investment strategies and started to invest in other industries, such as Media, Auto & Transport, and Mobile.
- Amazon also made few other big investments,
  - ✓ Amazon invested in UK-based Yodel Delivery Network to expand its logistics network in the UK.
  - ✓ In 2016, Amazon partnered with Twilio to strengthen its communication platform through text and voice messaging.
- In 2017, Amazon made an investment in a healthcare start-up, Grail which is specialize in genomics for cancer diagnostics. This is Amazon's first investment in the lifescience segment.
- In the last few years, Amazon has significantly focused on late-stage deals where most of the investment amount fallen into \$10M-\$20M range.



N/A

N/A

-100%

-100%

Source: Business Insider, CNBC, CB Insights

### **INVESTMENT – ALEXA FUNDING**



#### In two years till 2017, Alexa Fund done 25 deals

In majority cases, the Alexa Fund does early-stage funding (seed and Series A), however, the company has funded to some top consumer IoT providers in Series B round.

Company Name	Website	Fund Amount	Fund Type	Year
Ecobee	www.ecobee.com	\$35M	Series C	2016
Thalmic Labs	www.thalmic.com	\$120M	Series B	2016
Owlet Baby Care	www.owletcare.com	\$15M	Series B	2016
Ring	www.ring.com	\$61.2M	Series C	2016

Alexa Fund invested into multiple home-based voice control platforms which is one the strategic move to bring those products into Alexa ecosystem.

Company Name	Website	Fund Amount	Fund Type	Year	
TrackR	www.thetrackr.com	\$50M	Series B	2017	
Nucleus	www.nucleuslife.com	\$5.6M	Series A	2016	
Rachio	www.rachio.com	-	-	2015	
Petnet	www.petnet.io	-	-	2015	

# PARTNERSHIPS AND COLLABORATIONS (1/2)



### Amazon's cloud service AWS has made significant partnership Amazon and Microsoft partnered to integrate Alexa and Cortana Amazon and Microsoft entered into a partnership for better integration of their Alexa and Cortana digital Microsoft assistants. This cross-platform integration will allow Alexa users to access some unique aspects of Cortana. It appears that both companies have simply created skills on each other's platforms to enable the basic integration. Amazon and Ford partnered to access cars from a distance Ford and Amazon team up to offer consumers the ability to access their car from a distance. This is done by bring

Amazon Echo into Ford's cars. By the help of Alexa – Amazon's cloud-based voice service, the car provides ability to command internet-enabled functions. such as lighting, security systems, garage doors and other Alexa smart home devices.

#### **Dish Network and Amazon wireless collaboration**



Dish is looking to use e-commerce platform, streaming service, home assistant (Amazon Echo) and proposed drone delivery services, in collaboration with Amazon and T-Mobile USA. In the deal, Dish will utilize their spectrum for a wireless service, in collaboration with Amazon and T-Mobile USA.

#### **Cognizant is a Premier Consulting partner for AWS**



Cognizant with AWS merged for migration competency, big data, work spaces, healthcare and life sciences, financial services, and SharePoint. The AWS Cognizant Team (ACT) delivers the differentiating integration strategy and create the industry-specific and horizontal solutions for their mutual customers.

## PARTNERSHIPS AND COLLABORATIONS (2/2)



