

## Amazon.com, Inc. (NASDAQ: AMZN)

Initiation of Coverage — March 2026

Rating	Price Target	Current Price	Upside	Date
<b>BUY</b>	<b>\$256</b>	~\$212	<b>~21%</b>	March 2026

### Investment Thesis

We initiate coverage of Amazon.com with a BUY rating and a twelve-month price target of \$256, which represents approximately 21% upside from the March 2026 price of around \$212. Our thesis rests on three connected arguments, each of which reinforces the others. The first is that AWS is reaccelerating, driven by a surge in demand for AI workloads, and is now growing at its fastest rate in thirteen quarters. The second is that the advertising segment is structurally advantaged, in that it draws on first-party purchase data that is very difficult for competitors to replicate. The third is that Amazon's deepening partnership with Anthropic positions AWS as the infrastructure backbone for frontier AI development, which carries strategic weight beyond its direct financial contribution. Taken together, we argue that the market's concern over the scale of capital expenditure, while understandable, understates the returns that this capacity will compound as it is monetised, and it is this disconnect between near-term caution and longer-term earnings power that creates the entry point.

### Key Financials & Estimates

Metric	FY2024A	FY2025A	FY2026E	FY2027E
<b>Total Revenue (\$bn)</b>	<b>638</b>	<b>717</b>	<b>816</b>	<b>911</b>
YoY Growth	11%	12%	14%	12%
<b>AWS Revenue (\$bn)</b>	<b>108</b>	<b>129</b>	<b>167</b>	<b>209</b>
AWS YoY Growth	19%	20%	30%	25%
Advertising Revenue (\$bn)	56	69	85	102
Advertising YoY Growth	18%	22%	23%	20%
<b>Operating Income (\$bn)</b>	<b>69</b>	<b>80</b>	<b>98</b>	<b>122</b>
Operating Margin	10.8%	11.2%	12.0%	13.4%
CapEx (\$bn)	(83)	(132)	(191)	(164)
<b>Unlevered FCF (\$bn)</b>	<b>38</b>	<b>11</b>	<b>(28)</b>	<b>47</b>

A = actual (Amazon earnings releases). E = RoadToCFA estimates. FCF shown is unlevered.

### Pillar 1 — AWS: Capital Expenditure Masks Compounding Returns

AWS entered 2026 growing at 24% year-over-year on an annualised revenue run rate of \$142bn, which is its fastest pace in thirteen quarters. Alongside this, Amazon guided towards capital expenditure of over \$100bn in 2025 and approximately \$200bn in 2026, the majority of which is allocated to AWS data centres, and the market's initial reaction to this was negative, with the stock falling around 5% following the Q4 2025 earnings call in February 2026. We argue that this reaction was overdone, and as such creates the entry point, in that it focuses on the cost of the investment rather than the demand that justifies it. This view is

supported by the AWS contracted backlog, which stood at \$244bn at the end of 2025, an increase of 40% year-over-year, and which provides strong visibility over future revenue. The key point here is that the business is constrained by capacity rather than by demand, which is an unusual and favourable position to be in. It is worth noting that the AWS operating margin actually compressed slightly to 35.4% in 2025, largely as a result of the step-up in depreciation that accompanies heavy investment, but we expect this to recover towards 38% as new capacity comes online through 2026 and 2027 and revenue growth begins to outpace the associated depreciation.

## **Pillar 2 — Advertising: A Structural Flywheel**

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Amazon's advertising business generated \$69bn of revenue in 2025, which represents growth of around 22% year-over-year, and although it is disclosed within the wider retail segments rather than reported separately for operating income, its economics are worth examining in their own right. The distinguishing feature of Amazon's advertising, in contrast to search or social advertising, is that it sits at the point of purchase, in that advertisers are paying for placements directed at consumers who are already actively intending to buy. This is underpinned by first-party data on purchase history, browsing behaviour and household demographics, which is a dataset that is structurally difficult for competitors to replicate. The mechanism that makes this attractive is that as Amazon's retail volumes grow, driven by faster delivery, the expansion of grocery, and AI-assisted shopping through Rufus, which was used by 300 million customers in 2025, the audience available to advertisers expands in parallel. As such, the revenue opportunity compounds without a proportional increase in cost, and we therefore expect advertising to continue growing at around 20 to 23% per year through 2027, at operating margins that sit well above the group average.

## **Pillar 3 — Anthropic Partnership: AWS as the AI Infrastructure Standard**

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Amazon has invested \$8bn in Anthropic across two tranches, the first being \$4bn in September 2023 and the second a further \$4bn in November 2024, and as part of this Anthropic has named AWS its primary cloud and training partner. In practical terms, Anthropic runs its largest frontier models on AWS Trainium chips, which are co-developed with Amazon's Annapurna Labs, and the significance of this relationship extends well beyond the direct financial investment. It anchors AWS as the preferred infrastructure for a leading AI research lab, which in turn signals credibility to the enterprise customers who are choosing between cloud providers, and it accelerates the development of Amazon's own silicon, which reduces its dependency on Nvidia and supports margins over the longer term. Given that there are already over 100,000 customers running Anthropic's Claude models through AWS Bedrock, we argue that the partnership represents a durable competitive advantage in what is currently the fastest-growing segment of cloud computing.

## **Valuation**

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Our price target of \$256 is derived from a discounted cash flow analysis, using a weighted average cost of capital of 9.0% and a terminal growth rate of 3.5%, and we cross-check this against a sum-of-the-parts framework based on EV/EBITDA multiples. It is important to be transparent about the sensitivity of this valuation, in that the heavy capital expenditure of 2026 and 2027 suppresses near-term free cash flow to the point that it turns negative in 2026, which means that the majority of the present value sits in the terminal year, and the result is therefore highly dependent on the assumed normalisation of free cash flow margins thereafter. As such, the \$256 figure should be read as a central estimate within a plausible range rather than a precise target, and our sensitivity analysis shows that modest changes in either the discount rate or the terminal growth assumption move the implied value meaningfully, with a figure in the region of \$265 emerging under slightly more favourable assumptions. For context, consensus price targets as of March

2026 ranged from around \$250 at Wolfe Research to above \$300, with the majority of active ratings at outperform or buy, and Needham & Company independently maintained a target of \$265 citing AWS reacceleration and AI-driven demand, which is broadly consistent with our own view.

## Key Risks

Risk	Description	Severity
CapEx returns	Sustained capital expenditure of \$100-200bn per year may not yield adequate returns if AI demand softens or capacity is overbuilt.	High
FCF compression	FY2025 free cash flow fell to around \$11bn from \$38bn in FY2024 as capital expenditure consumed roughly 94% of operating cash flow, and sustained pressure would reduce balance sheet flexibility.	Medium
Competition	Azure and Google Cloud are growing faster in percentage terms and competing for AI workloads, so AWS must defend its market leadership.	Medium
Regulatory	Antitrust scrutiny of the AWS, marketplace and advertising businesses is increasing across US and EU jurisdictions.	Low-Medium
Macro / FX	The international segment is exposed to a strong US dollar, and retail volumes are sensitive to a slowdown in consumer spending.	Low-Medium

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