

AMAZON.COM Inc. (NASDAQ: AMZN)

Update: Earnings Release
Rating: Maintain Accumulate

July 23, 1999

HIGHLIGHTS

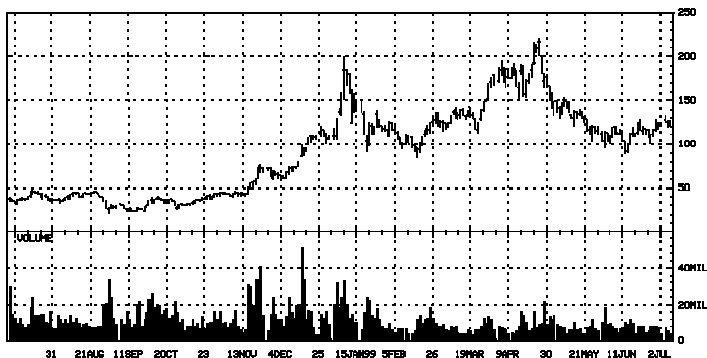
- Revenues came in at \$314.4 million, a sequential growth of 7%. While operating loss was at (\$0.51) per share.
- The Company's accounts increased to 10.7 million customers, up from 8.4 million in the previous quarter.
- Amazon.com is successfully continuing its strategy of expanding into new markets. In the past month, the Company has added electronics and toys to its offerings.
- Amazon.com is expecting to spend \$300 million on distribution facilities over the next two years.
- The Company announced a 2 for 1 stock split effective September 1.
- We are lowering our operating EPS estimates for fiscal 1999 and 2000 from (1.17) to (1.75) and from (1.17) to (1.34), respectively.
- We reiterate our Accumulate rating and recommend that investors continue to purchase on any price weakness.

Recent Price	\$114.63
52WK High	\$221.25
52WK Low	\$21.63
P/E	N/A
P/Book	238.43
P/Sales	17.57
Market Capitalization	\$18.5 Billion
Shares Outstanding	161.1 million
Float	63.0 million
Daily Volume	8.25 million
(3-month Average)	
Short Ratio (6/99)	1.67

EPS	Operating	Reported
1Q99	(.23)	(.39)
2Q99	(.51)	(.86)
3Q99E	(.54)	(1.15)
4Q99E	(.46)	(1.05)
1997	(.24)	(.24)
1998	(.50)	(.84)
1999E	(1.75)	(3.48)
2000E	(1.34)	(3.40)

ONE-YEAR PRICE AND VOLUME GRAPH

COMPANY PROFILE



Courtesy of Bloomberg, L.P.

Based in Seattle, Washington, Amazon.com is the leading online seller of books and music with over 4.7 million titles. The Company also sells videos, DVDs, and selected toys and electronics. All of these products are sold through its Web site. Amazon.com was incorporated in July 1994 and began offering products for sale in July 1995. Currently, Amazon.com has approximately 75% of the online book market and captured 7.8% of all e-commerce sales for 1998. Amazon.com 's Web site can be reached at www.amazon.com.

This report was prepared by David R. Rivas, Ph.D., Frederic Fung and Kin W. Tam.

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Summary

Amazon.com announced that revenues for the fiscal quarter ending June 30th came in at \$314.4 million, an increase of a mere 7% from the previous quarter. This figure was slightly below our revenue estimate of \$323 million. We had originally expected average customer spending to be at \$31 and not the \$29 as reported. However, repeat sales accounted for 70% of total sales, increasing from 66%, reflecting continual improvement in customer retention. The company expects 3Q revenues to increase in absolute and percentage terms from the 2Q numbers, reflecting seasonal factors in retailing.

Operating earnings were a loss of \$0.51 per share, below our loss estimate of \$0.32 per share. This difference was primarily due to the Company's significantly higher than expected capital and marketing expense and the decrease in gross margins due to the sale of lower margin items and steep discounting. Management continues to invest very aggressively to meet future demand. The Company expects to spend an additional \$300 million to increase distribution capacity over the next several quarters. We believe that earlier spending will reap bigger payoffs, as E-commerce becomes a more significant vehicle for retail transactions in future years. We believe that higher distribution and technological capacity will prevent bottlenecks and breakdowns in the future, as in the case of eBay's misfortunes in the month of June.

Amazon.com's accounts increased significantly to 10.7 million customers above our already optimistic projections of 10.4 million and a healthy 27% increase from the previous quarter. However, customer accounts also reflect both bidders and sellers within the Company's auction services. Another significant achievement was that, according to Media Metrix, the Company has surpassed Bluemountainarts.com in June to be the number one online shopping site.

The Company has added electronics and toys to its core offerings within the past month reflecting the Company's commitment to being the most comprehensive commerce site for customers. In addition, the customer also is expanding its reach and product line through continuing investments in other leading Internet sites. The Company has moved into the sporting goods closeout sector through equity investments in Gear.com. This is in addition to investments in Homegrocer.com and Drugstore.com that we have previously mentioned.

The Company announced a 2 for 1 stock split effective September 1.

Opinion

We are making a slight adjustment to our revenue projections for fiscal 1999 and fiscal 2000. We are lowering our 3Q revenue projections to \$341 million from \$367 million while raising our 4Q revenue estimates to \$477 million, reflecting management's belief in a very strong 4Q holiday season. We now project revenues for 1999 to be \$1.43 billion, down from \$1.45 billion and for 2000 to be \$2.2 billion, up from \$2.17 billion.

We are lowering our 1999 EPS estimates from (1.17) to (1.75) and our 2000 EPS estimates from (1.17) to (1.34) due to the increased investments in distribution facilities and higher advertising and fulfillment costs.

We maintain our Accumulate rating based on Amazon.com's commitment to customer satisfaction reflected by the addition of new product lines, the Company's leading position as the largest online commerce site and a healthy growth in new customer accounts. We recommend that investors continue to purchase on any price weakness.

Amazon.com															
Statements of Operations															
(\$000, except per share data)	1Q98	2Q98	3Q98	4Q98	FY98	1Q99	2Q99	3Q99E	4Q99E	FY99E	1Q00E	2Q00E	3Q00E	4Q00E	FY00E
Net Sales	\$87,395	\$116,010	\$153,698	\$252,893	\$609,996	\$293,643	\$314,377	\$341,099	\$477,906	\$1,427,025	483,509	508,803	541,401	673,123	\$2,206,836
Cost of Sales	68,062	89,794	118,823	199,476	476,155	228,852	246,846	266,739	372,767	1,115,204	374,719	392,287	416,879	516,958	1,700,844
Gross Profit	19,333	26,216	34,875	53,417	133,841	64,791	67,531	74,360	105,139	311,821	108,790	116,516	124,522	156,165	505,992
Operating Expenses:															
Marketing and Sales	19,949	27,056	37,517	48,501	133,023	60,744	85,949	95,087	101,141	342,921	98,831	100,106	105,518	119,451	\$423,906
Product Development	7,320	8,832	13,374	17,281	46,807	23,477	34,288	42,166	48,312	148,243	39,715	41,856	45,098	51,613	\$178,282
General and Admin	2,049	3,315	4,978	5,457	15,799	11,165	14,546	16,451	19,976	62,138	18,889	19,648	20,728	21,906	\$81,171
I,M&A Related Costs	-	5,413	20,512	24,247	50,172	25,309	55,222	100,000	100,000	280,531	90,000	90,000	90,000	90,000	\$360,000
Total Operating Expenses:	29,318	44,616	76,381	95,486	245,801	120,695	190,005	253,704	269,429	833,833	247,435	251,610	261,344	282,970	1,043,359
Operating Income (excluding M&A):	(9,985)	(12,987)	(20,994)	(17,822)	(61,788)	(30,595)	(67,252)	(79,344)	(64,290)	(241,481)	(48,645)	(45,094)	(46,822)	(36,805)	(177,367)
Operating Income:	(9,985)	(18,400)	(41,506)	(42,069)	(111,960)	(55,904)	(122,474)	(179,344)	(164,290)	(522,012)	(138,645)	(135,094)	(136,822)	(126,805)	(537,367)
Interest Income	1,645	3,390	4,754	4,264	14,053	10,925	12,901	11,611	10,450	45,887	9,927	9,431	8,959	8,511	36,829
Interest Expense	(2,029)	(7,569)	(8,419)	(8,622)	(26,639)	(16,688)	(28,435)	(20,045)	(22,226)	(87,394)	(23,343)	(23,533)	(23,727)	(23,925)	(94,527)
Net Interest Income (expense)	(384)	(4,179)	(3,665)	(4,358)	(12,586)	(5,763)	(15,534)	(8,434)	(11,776)	(41,507)	(13,416)	(14,102)	(14,767)	(15,413)	(57,698)
Net Loss	(10,369)	(22,579)	(45,171)	(46,427)	(124,546)	(61,667)	(138,008)	(187,778)	(176,066)	(563,519)	(152,061)	(149,196)	(151,589)	(142,219)	(595,065)
Operating Loss Per Share	-0.07	-0.12	-0.16	-0.14	-0.50	-0.23	-0.51	-0.54	-0.46	-1.75	-0.36	-0.34	-0.35	-0.29	-1.34
Basic and Diluted Loss Per Share	-0.07	-0.15	-0.30	-0.30	-0.84	-0.39	-0.86	-1.15	-1.05	-3.48	-0.89	-0.86	-0.86	-0.79	-3.40
Diluted shares outstanding	141,318	146,277	150,702	154,389	148,172	156,897	161,170	163,107	167,077	162,063	171,055	173,419	175,782	179,146	174,851
Margin Analysis (% of Sales)															
Gross Margin	22.1%	22.6%	22.7%	21.1%	21.9%	22.1%	21.5%	21.8%	22.0%	21.9%	22.5%	22.9%	23.0%	23.2%	22.9%
Sales, Marketing Expense	22.8%	23.3%	24.4%	19.2%	21.8%	20.7%	27.3%	27.9%	21.2%	24.0%	20.4%	19.7%	19.5%	17.7%	19.2%
Product Development	8.4%	7.6%	8.7%	6.8%	7.7%	8.0%	10.9%	12.4%	10.1%	10.4%	8.2%	8.2%	8.3%	7.7%	8.1%
General and Admin	2.3%	2.9%	3.2%	2.2%	2.6%	3.8%	4.6%	4.8%	4.2%	4.4%	3.9%	3.9%	3.8%	3.3%	3.7%
Operating Losses				-16.6%	-18.4%	-19.0%	-39.0%	-52.6%	-34.4%	-36.6%	-28.7%	-26.6%	-25.3%	-18.8%	-24.4%
Profit (Loss)	-11.9%	-19.5%	-29.4%	-18.4%	-20.4%	-21.0%	-43.9%	-55.1%	-36.8%	-39.5%	-31.4%	-29.3%	-28.0%	-21.1%	-27.0%
Growth (sequential)															
Net Sales (sequential)	32%	33%	32%	65%	-	16%	7%	8%	40%	-	1%	5%	6%	24%	-
Net Sales (yr. over yr.)	446%	316%	306%	283%	313%	236%	171%	122%	89%	138%	65%	62%	59%	41%	50%
Cost of Sales	28%	32%	32%	68%	300%	15%	8%	8%	40%	134%	1%	5%	6%	24%	53%
Gross Profit	50%	36%	33%	53%	364%	21%	4%	10%	41%	133%	3%	7%	7%	25%	62%
Marketing and Sales	18%	36%	39%	29%	229%	25%	41%	11%	6%	158%	-2%	1%	5%	13%	24%
Product Development	39%	21%	51%	29%	236%	36%	46%	23%	15%	217%	-18%	5%	8%	14%	20%
General and Admin	-2%	62%	50%	10%	125%	105%	30%	13%	21%	293%	-5%	4%	5%	6%	31%
Total Operating Expenses:	21%	52%	71%	25%	300%	26%	57%	34%	6%	239%	-8%	2%	4%	8%	25%
Loss from Operations:	-12%	84%	126%	1%	243%	33%	119%	46%	-8%	366%	-16%	-3%	1%	-7%	3%
Interest Income	110%	106%	40%	-10%	639%	156%	18%	-10%	-10%	227%	-5%	-5%	-5%	-5%	-20%
Net Loss	-4%	118%	100%	3%	302%	33%	124%	36%	-6%	352%	-14%	-2%	2%	-6%	6%
Ending Customers	2260	3280	4500	6200	6200	8400	10700	12300	14300	14300	15700	17,100	18,600	20,400	20400