

AMAZON'S RESILIENCE PREVAILS

Amazon's share price may have given back some of the gains it has made since it announced strong second-quarter earnings in late July but its long-term fundamentals remain as intact as ever.

Amazon has something in common with the greatest companies that exist, according to Berkshire Hathaway, in that it has only ever gone public once, and it has financed absolutely everything it has done from its cashflows. It is a very profitable and sustainable e-commerce business embedded in Amazon that has been driven ruthlessly.

It is famed for finding new areas of the market to enter and disrupt. Jeff Bezos once said, "your margin is our opportunity", and it is a sackable offence at the company if you put off a project due to fears about the impact on short-term outcomes. Its advertising business is one of its fastest-growing divisions and is now the third-largest digital advertising company, behind only Google and Facebook. And it has advantages over many of its competitors because it does not have the privacy or social media constraints they have. Indeed, it has hardly any antitrust constraints because it's not advertising when you're interacting with other people, as some of the other platforms do, but at the point of purchase, which is the single most valuable time to advertise.

However, perhaps, the main reason to invest in Amazon is Amazon Web Services (AWS), which we continue to believe is an underappreciated asset and a crucial part of the overall Amazon business. It grew at 33%, a touch ahead of consensus in Q2 and is maintaining its market share, which was particularly positive in light of the challenging macro environment. It has an annualised sales run rate of nearly \$79bn and delivered a 29% operating margin this quarter. It also announced plans to open a further 24 availability zones (data centres) in addition to its current 84.

Amazon is currently on earnings at the bottom end of its historical average, which in our view represents good value, especially with the momentum that AWS has, along with the share gains and better efficiency in e-commerce. It is a tremendous business.

Amazon's second-quarter earnings reinforced the strength of the business

Meta	Actual	Estimate	Miss or beat
Total revenue	\$121.2bn	\$118.7bn	Beat
Operating Income	\$3.3bn	\$1.8bn	Beat
AWS growth	33%	32%	Beat
E-commerce/retail	\$101.5bn	\$99.5bn	Beat

*Christopher Rossbach, CIO
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The Value of Long-Term Investing

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