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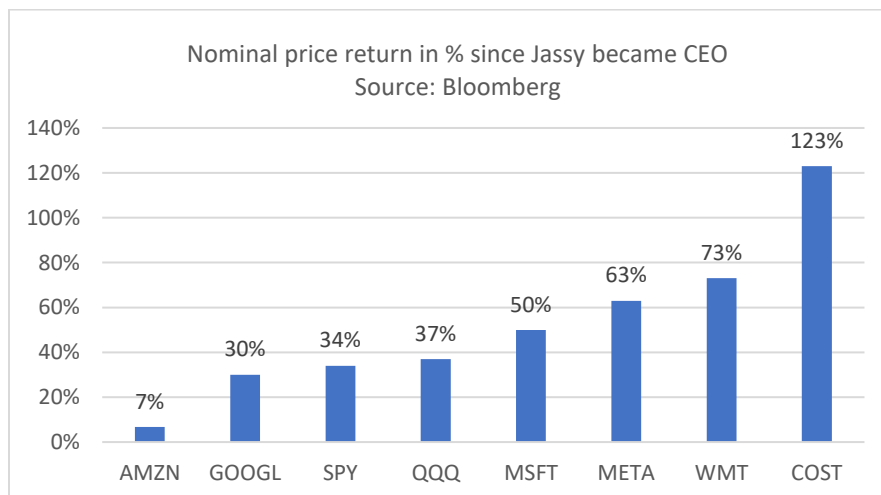
Dear Amazon Board of Directors:

Blue Duck Capital is a long-term holder of Amazon (AMZN) common stock. We write to you today with full appreciation and admiration for operating one of the most dominant businesses in history – one that’s rewarded shareholders, customers, and employees to no end for decades. Writing this letter from our vantage as a small beach-town based Hedge Fund in California – the optical paradox versus the juggernaut that is AMZN is not lost on us. Humility aside, **we owe it to our investors to express concerns about the recent material underperformance in AMZN shares. We believe there are simple steps that management can take to remedy this underperformance and capitalize on Amazon’s unprecedented platform and market position.**

The Jeff Bezos ethos from day one, decades ago, was that Amazon seeks to delight its customers and that this objective is to be pursued with obsession. No doubt, the Company has achieved this and then some. In our view Amazon is the most impressive growth story in business history.

With that said, we cannot help but be frustrated with recent AMZN stock price performance. Many might be surprised to learn that AMZN’s stock has provided a *negative real* rate of return of approximately -7% since Andy Jassy became CEO just over three years ago.

Jassy became CEO on July 5, 2021 when the stock was at ~\$180/share. Today, the stock is at \$187/share. That's a +6.7% nominal return in more than three years but negative 7% adjusted for inflation. Over the same period, the S&P 500 is up over 30%. The QQQ is up 37%. Alphabet (GOOGL) is +30%. Microsoft (MSFT) is +50%. Costco (COST) is +123%. We could go on.



Note that AMZN also had an over 50% drawdown in its stock price within the first 18 months of Jassy becoming CEO. So, obviously, an investor under his tenure would have required some real "diamond hands" to realize the paltry +6.7% nominal return, assuming they did not add on the huge drop.

There are several simple steps that we believe can be executed by management to help remedy this underperformance, some of which are outlined below.

Initiate a Formal and Significant Capital Return Program

AMZN's last significant buyback was in 2022 for \$10B. This is peanuts versus a market cap that's ranged between \$1-2 trillion since 2020. Also, AMZN pays no dividend. Amazon's nonexistent capital return program stands out given that AMZN has generated \$80B in FCF over the past 24 months and has \$89B of cash on the balance sheet.

On the other hand, Meta Platforms (META) bought back \$92B from 2021-2023 and just announced another \$50B buyback on top of the \$31B already authorized. META also pays a \$2/share annual dividend. Given that META had a market cap in the \$500B range for much of 2022 and at least half of 2023, the \$92B in share repurchases was extremely accretive and represented a material capital return as a percentage of the market cap. Even Alphabet (GOOGL), notorious for being unfriendly to shareholders, pays an \$0.80/share annual dividend and has authorized a \$70B share buyback.

With AMZN shares currently trading for ~13x next twelve-months consensus EBITDA – well below the 10-year median of ~19.4x, we believe a formal shareholder capital return program would result in a meaningful accretion for AMZN stock and encourage the Board to initiate this action in the immediate future. At a minimum, a buyback should be implemented to offset share-count growth due to stock-based compensation.

Improve on Inefficient Business Execution

What about Amazon's recent business execution? We think MIXED is a fair assessment as operations got a little sloppy during COVID. While indications are that AWS is returning to +20% growth, and margins have been good there, we also saw AWS revenue growth dip to low double-digit percent (albeit off a high base) for the bulk of 2023. Microsoft (MSFT) and Google clouds were growing multiples of that during the same period, indicating material share gains at AMZN's expense. We can get into the reasons why - some of them perhaps more valid than others - but the growth rates and implications for market share are what they are.

What about Amazon's retail business? In response to the COVID pandemic, AMZN doubled the size of its fulfillment network in just 24 months - an incredible task to their credit. The expansion was unprecedented and matched the scope of their prior infrastructure build that took 25 years. While we think this was the right thing to do at the time, the rapid expansion led to excess capacity as demand normalized post-pandemic. As of late 2022, Amazon was estimated to be using only about 65% of its total warehouse capacity, compared to 85% utilization levels in 2019. We thus saw considerable de-leverage in the model with retail margins and cash flow suffering for much of 2022. In 2023, margins began to rapidly improve as unit volume grew into excess capacity resulting in positive operating leverage. Given that AMZN's annual incremental operating expenditure went

from about \$45B to a per-year average of ~\$80B from 2020-2022, is it unreasonable for shareholders to ask that the margin expansion story continue?

With \$306B in cumulative capex over the past decade, one might think AMZN has built an uncrossable moat and is thus eating Walmart's (WMT) lunch in retail. But, upon closer examination, we don't think that's true. Boring ol' Walmart will grow their N. American e-commerce biz at ~22% this year, about 2x the growth of AMZN's comparable business. Further, the WMT share gains come despite spending a mere \$150B on capex during the same period that AMZN spent over 2x that (granted some of that was for AWS). Even as WMT has invested in their own business via the aforementioned \$150B in capex over the past decade, they've also managed to lower their share count by ~18%. AMZN on the other hand has *grown* its share count by 15% over the past decade. If WMT can profitably grow topline and return capital to shareholders in the process, AMZN should be able to as well.

Provide More Transparency Around Projected A.I. Investment

The margin expansion story outlined above may turn out to be disappointingly short-lived as all indications are that AMZN is on the cusp of another major investment cycle; this time with substantial capex investment earmarked for nebulous "A.I." related spend.

We don't know many shareholders who know what A.I. spend means exactly (we certainly don't) and AMZN has not shared much, as usual. What has been shared with regard to A.I. investments has been highly technical. For example, here's a snippet of Jassy's opening monologue on the Q2 call related to A.I.:

"People don't want just one database option or one analytics choice or one container type. Developers and companies not only reject it, but are suspicious of it. They want multiple options for flexibility and to use the best tool for each job to be done. The same is true in AI.

You saw this several years ago when some companies tried to argue that TensorFlow would be the only machine learning framework that mattered, and then PyTorch and others overtook it. The same one model or one chip approach dominated the earliest moments of the generative AI boom, but we have a lot of data to suggest this is not what customers want here either, and our AWS team is determined to deliver choice and options for customers.

You can see this philosophy in the primitive building blocks we're building at all three layers of the Gen AI stack. At the bottom layer, which is for those building generative AI models themselves, the cost to compute for training and inference is critical, especially as models get to scale. We have a deep partnership with NVIDIA and the broadest selection of NVIDIA instances available, but we've heard loud and clear from customers that they relish better price performance. It's why we've invested in our own custom silicon in Trainium for training and Inferentia for inference. And the second versions of those chips, with Trainium coming later this year, are very compelling on price performance. We are seeing significant demand for these chips."

What does any of this even mean? AMZN cannot assume that the majority of shareholders have a degree in Computer Engineering. Since A.I. is such a focal point - and it may be the source of margin dilutive incremental spend in coming years, AMZN should do a much better job of articulating the what and why in layman's terms - perhaps this opacity is another major reason for the stagnation of the stock price.

Capitalize on Growing Health Movement

What about Whole Foods? Ever since the COVID pandemic, we have seen a shift in this country where, despite the higher prices for everything, Americans are seeking out healthier lifestyles, specifically around the food they are eating. RFK Jr.'s "Make America Healthy Again" campaign and Jason Karp [lobbying against](#) Kellogg for their harmful additives in cereal are just two examples.

Despite this momentum nationally, it is unclear how Whole Foods has capitalized on this movement apart from just existing as it has before. No major marketing campaigns to remind Americans of the healthier benefits of eating unprocessed foods? To be fair, it did run a "Whatever Makes You Whole" campaign in 2023 - but this creative failed to underscore the real, tangible health benefits of unprocessed foods and instead tried to be silly/funny, which comes off as [contrived](#). This seems to us like a miss, and judging by the stock price, the market perceived it to be as well. There are ways to better position Whole Foods as the healthier alternative to the big, processed brands without alienating their potential ad dollars.

Other Unforced Errors that can be Cleaned Up

First, as AMZN stock has come off the 50% drawn down in 2022, insiders such as Jeff Bezos have sold material amounts of stock. I'm not going to bother adding up the value but it's in the many billions. Bezos' sales marked a local top in shares.

Second, AMZN is known to demonstrate cost discipline across many parts of the business - this is of course good. Yet we might note what appears to be a lack of discipline with regard to their original content investments. Specific examples include the \$250mn acquisition of the rights to produce TV programs based on J.R.R. Tolkien's iconic (seemingly timeless) Lord of the Rings franchise. What does the team at Amazon Studios do with that opportunity? They took Tolkien's characters and [ruined them by wok\(e\)ing it up](#); this is not a political letter - so don't take this the wrong way - but AMZN executives are more than likely aware of the saying "go woke, go broke." In fact, many companies such as Tractor Supply, Bud Light, Netflix even - have had to walk back ill-advised oversteps into the minefield of woke culture - and they did that because they care about the bottom-line. Note that The Rings of Power show-runners appear to have no major credits attributed to them prior to being entrusted with Tolkien's masterpiece. Does Amazon care about the impact this quarter of a billion-dollar misstep had on its shareholders or will the same team continue to be given blank checks for more lackluster original programming?

Similarly, in July of 2024, AMZN's Wondery podcast division announced a deal for the exclusive rights to Dax Shepard's "Armchair Expert" podcast. Shepard got an \$80mn deal. No, not Joe Rogan. No, not the Obamas. No, not anyone most people have even heard of. Yes, Dax Shepard. "Armchair Expert" clocks in at #46 on the [Spotify Podcast Charts](#). Five spots worse than "Matt and Shane's Secret Podcast" and one spot better than "The Comment Section" with Drew Afualo.

Further, while it's been challenging to earn a competitive return in AMZN stock in recent years, Jeff Bezos certainly hasn't felt compelled to tone down the opulent, highly public, optics of his lifestyle at all. This is fine; we respect Jeff and he has earned it. Legitimately, he is a genius and one of the greatest businessmen ever and his private life is really nobody's business. Having said that, one can't help but to notice his new super luxurious, opulent lifestyle, and one might question whether Jeff's head is as focused on Amazon shareholders – he's still the Chairman after all. Some indication that Jeff still cares and is involved would be well received.

Summary of Shareholder Friendly Actions to Unlock Value

With these observations in mind - we recommend that AMZN adopt a more shareholder friendly approach and consider an objective of delighting shareholders, just like they previously delighted customers for many years.

To that end, we recommend initiating a material capital return program like other "Mag 7" members have done and even what Walmart has adopted for years.

Further, AMZN should provide significantly more disclosure on where and how A.I. related capex is being spent. The disclosure needs to be in layman's terms.

With Whole Foods, AMZN has a pole position to capitalize on the growing trend towards healthier foods, and we recommend it embrace with more forcefulness that opportunity and draw a contrast versus mega-corporate processed food competitors.

Next, the Hollywood team who ruined the iconic Lord of the Rings franchise should be fired and the Company should initiate a strategic review of Amazon Studios to ensure that blank content checks are no longer awarded to sparsely credentialed showrunners who seem as intent on politicking as they are on making mass-market entertainment.

Lastly, AMZN should scrutinize every penny that goes out the door for things like podcast talent and all related media verticals. Shareholders will appreciate it, as well the thousands of employees who may be underwater on their stock options. There is more that can be done to turn the ship around for shareholders - these simple first steps would be a refreshing start – and how hard would it be for Jeff Bezos to give a state of the union at some point? It has been nearly 15 years since he last appeared on an AMZN earnings call. If the Board adopts a position in favor of these basic steps, we would expect to see the stock re-rate back to a mid to high teens multiple of EBITDA, with a line of sight toward over \$250 per share inside the next 12 months.

Sincerely,

Blue Duck Capital Partners

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