

Amazon in 2026: An Outstanding Business, but What Is the Stock Worth?

An evidence-led guide to Amazon’s economics, AWS, its AI investment cycle and three reproducible valuation scenarios. Research cutoff: 19 October 2026. Financial results through 30 June 2026.

The answer in one minute. Amazon has extraordinary scale and one of the most profitable cloud platforms. Its AWS division generated roughly 57% of 2025 operating income. Yet growing AI and data-center spending has pushed recent free cash flow below zero. At the 19 October 2026 close of **\$262.45**, our conservative central operating model does not demonstrate a clear margin of safety. This is not proof that the shares are overpriced: Amazon’s private investment portfolio and future obligations make a precise consolidated fair value difficult to establish. [1–3]

Verified measure	Result	Period
Revenue	\$716.9bn	FY2025
Operating income	\$80.0bn	FY2025
AWS operating income	\$45.6bn	FY2025
AWS revenue growth	Approximately 36.8%	Q2 2026 YoY
Reported free cash flow	–\$7.6bn	TTM ending June 2026
Reference share price	\$262.45	19 Oct 2026, 4:00 p.m. ET

1. The investment thesis

Why investors are optimistic	Why investors are cautious
AWS growth, deep enterprise relationships and strong segment margins.	Data centers and AI chips require extraordinary amounts of cash.
Large marketplace, fulfilment infrastructure and Prime encourage repeat usage.	Retail, cloud and advertising all face strong competition and regulatory risks.
Advertising and automation can improve profits as the business scales.	Private AI investments add valuation volatility; shareholders face dilution and valuation risk.

What matters most: Will Amazon turn higher sales and operating profits into durable free cash flow *per share* after the current investment cycle?

2. How Amazon makes money

Amazon earns money in several ways. It buys and resells products; charges independent merchants for marketplace and fulfilment services; collects advertising and Prime subscription revenue; and rents computing capacity, storage, databases and AI tools through Amazon Web Services (AWS). For a third-party sale, Amazon usually reports its service revenue rather than treating the entire price of the merchant's merchandise as Amazon's own product sale.

FY2025 revenue category	Revenue (USD bn)	Share
Online stores	269.29	37.6%
Third-party seller services	172.16	24.0%
AWS	128.73	18.0%
Advertising	68.64	9.6%
Subscriptions	49.62	6.9%
Physical stores	22.56	3.1%
Other	5.94	0.8%

These are **revenue categories**, not separately audited profit centers. Amazon does not disclose the standalone operating profits of advertising or Prime. [1]

3. Where the profit comes from

2025 segment	Revenue	Operating income	Margin
North America	\$426.3bn	\$29.6bn	6.9%
International	\$161.9bn	\$4.8bn	2.9%
AWS	\$128.7bn	\$45.6bn	35.4%

AWS produced over half of Amazon's annual operating profit despite contributing less than one fifth of revenue. In Q2 2026, AWS revenue reached about \$42.2bn and its segment operating margin was roughly 39.4%. This is why AWS matters far more to valuation than its revenue share alone might suggest. [1, 2]

AWS revenue, 2019-2025

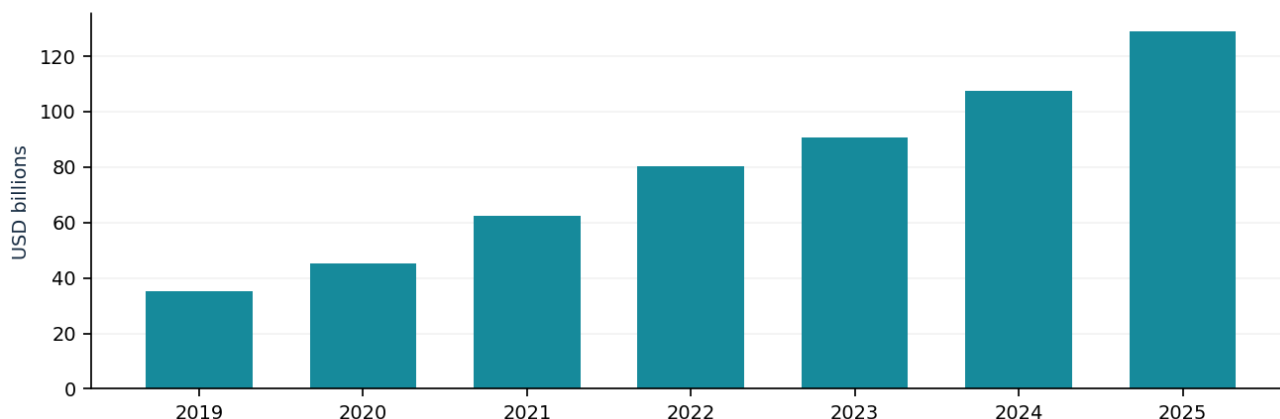


Chart: AWS annual revenue from historical reports. Company data; chart produced for this article. [1]

4. Financial performance: earnings versus cash

Amazon's revenue rose from approximately \$574.8bn in 2023 to \$716.9bn in 2025. Operating income rose from \$36.9bn to \$80.0bn. This suggests better business efficiency, but cash generation tells a more complicated story. [1]

Operating income, 2016-2025

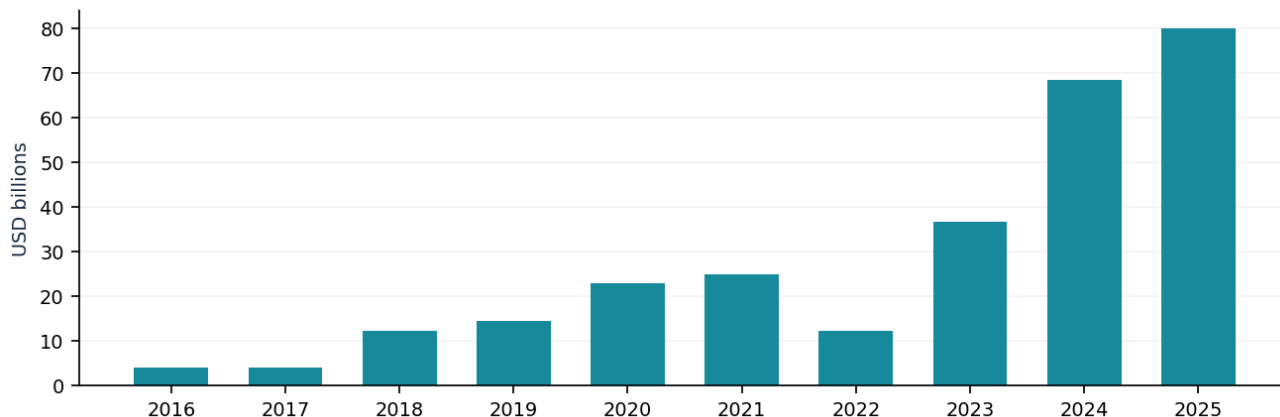


Chart: historical annual operating income, sourced from Amazon annual filings. [1]

In the 12 months to June 2026, Amazon generated around **\$161.4bn of operating cash flow** but spent roughly **\$169.0bn of net cash capital expenditure**, leaving reported free cash flow of around **-\$7.6bn**. Strong operating performance can therefore coexist with weak residual cash when infrastructure spending accelerates. [2]

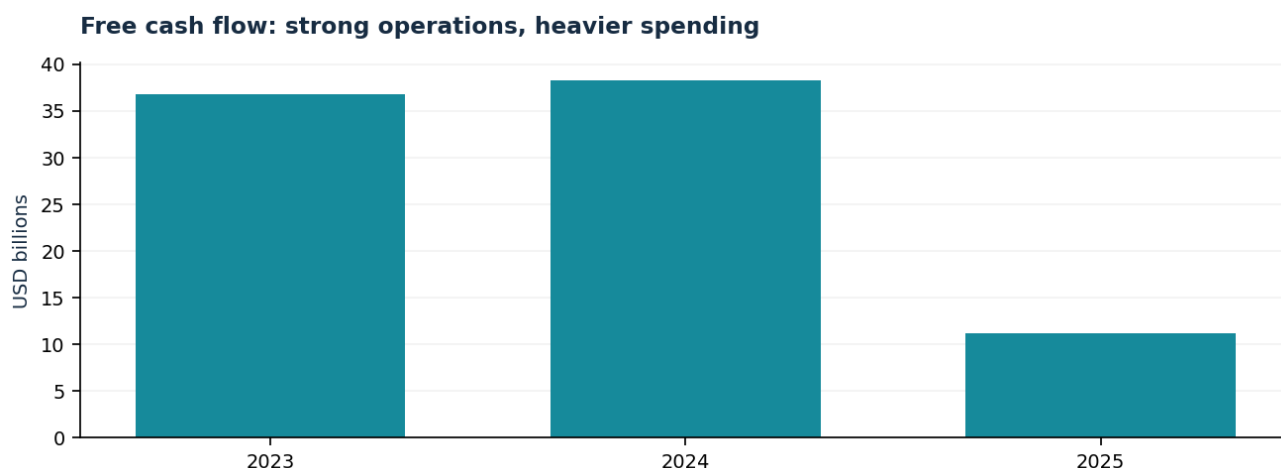


Chart: historical company-defined free cash flow. Definitions and periods should be compared consistently. [1, 2]

5. AI investment: what is really happening?

Amazon builds and rents AI infrastructure through AWS, custom processors such as Trainium, and enterprise services such as Bedrock. Those products may support future growth. Yet investment returns depend on customer demand, pricing, chip utilization, energy costs and the need to replace equipment.

Amazon also holds financial stakes in AI companies. Its June 2026 filing reported **\$229.7bn** of investments across equity interests, warrants and convertible securities in public and private businesses, including important Anthropic and OpenAI exposures. This was **not \$229.7bn of unrestricted cash**. The filing reports a further **\$21.3bn** funding of an OpenAI investment after June 30; that transaction exchanges cash for another asset and must not be counted twice. [2]

Reported net income in Q2 2026 was also influenced by significant non-operating valuation adjustments on those investments. Consequently, a headline P/E based on such earnings is not a clean measure of recurring operating profitability. [2]

6. Financial strength, shareholder returns and competition

At 30 June 2026 Amazon had about \$123.0bn of cash and marketable securities and \$128.9bn in long-term debt, plus lease and financing obligations. It has substantial resources, but funding capacity and future commitments matter when assessing the ongoing buildout. Amazon is not principally a dividend-income company; investors should check company announcements for any change in distribution policy. [2]

AWS competes with Microsoft Azure, Google Cloud and Oracle Cloud Infrastructure. In commerce Amazon faces Walmart and many specialized retailers. Comparing consolidated company margins would be misleading because these firms have very different business mixes; cloud-specific comparisons are more informative, subject to differing disclosures.

7. Return on capital: the crucial missing signal

Return on invested capital (ROIC) asks whether profits justify the money invested. A common approach is after-tax operating profit divided by average invested capital. Amazon's growing investments, leases, financing arrangements and AI securities make the definition particularly important. This article does **not** present an unverified five-year ROIC series. Instead, the most useful forward test is whether incremental AWS profit and consolidated free cash flow rise faster than invested operating capital after the data-center buildout. A segment-level ROIC cannot be reliably established from the disclosed segment results alone.

Illustrative ROIC example (not Amazon data): suppose a company has \$20bn in operating profit, pays an assumed 25% tax rate, and has \$150bn of average invested operating capital. Its after-tax operating profit is \$15bn and ROIC is \$15bn / \$150bn = **10%**. If the company must spend new capital to earn only 6% while its capital costs 9%, growth can reduce shareholder value. Amazon-specific ROIC needs a separately reconciled operating capital base and is not inferred from this example.

8. A transparent 2027–2036 discounted cash-flow model

Our DCF uses **free cash flow to the firm (FCFF)**: after-tax operating profit + depreciation – cash capital expenditure – change in working capital. Annual cash flows are discounted using WACC. Terminal value uses the Gordon growth formula. Unlike net income, this approach explicitly models cash reinvestment.

2026 starting point: the scenarios assume **\$835bn** of 2026 revenue, or approximately 16.5% growth from reported 2025 sales. This is an analyst forecast, **not reported 2026 revenue or third-party consensus**. All three cases begin from that same base and then diverge in growth, operating margins and capital intensity. This starting forecast is a major source of uncertainty.

Parameter	Bear	Base	Bull
2027 revenue	\$906bn	\$939bn	\$969bn
WACC	10.50%	9.50%	8.75%
Terminal growth	2.50%	3.00%	3.50%
2027–36 cash flows	10 annual forecasts	10 annual forecasts	10 annual forecasts
Share count	10.9bn	10.9bn	10.9bn

The share count is an analytical diluted denominator, not a precise 19 October share-register update. The three complete CSV files accompany the PDF in the ZIP and can be downloaded individually. [4]

Valuation result, USD bn	Bear	Base	Bull
PV of 10 years FCFF	\$30	\$358	\$810
PV of terminal value	\$517	\$1,407	\$3,297
Operating enterprise value	\$547	\$1,765	\$4,107
Terminal value share	94.6%	79.7%	80.3%

What terminal value means: The model forecasts cash flows until 2036, but Amazon will not necessarily cease operating that year. Terminal value is the assumed value of all subsequent cash flows. If it accounts for 80% of a result, four out of five valuation dollars depend on what happens *after* the ten explicit forecast years. That makes the result sensitive to even small changes in perpetual growth and the discount rate.

Critical interpretation: the terminal value represents roughly 80% of enterprise value in the Base case and more than 90% in the Bear case. That makes the model very sensitive to assumptions about the distant future. A mathematically correct DCF can still be an unreliable point estimate if those assumptions are wrong.

9. From business value to share value

To estimate common-equity value, we start with the DCF value of operating activities, add cash and other separately valued assets, then subtract debt-like financing claims. The treatment of leases must be consistent with the forecast cash flows to avoid double-counting.

Bridge, June 2026 USD bn	Adjustment
Cash and marketable securities	+\$122.993
Long-term debt	–\$128.894
Reported other short-term borrowings	–\$0.325
Finance lease liabilities	–\$13.451
Financing obligations	–\$9.315
Subtotal excluding investment assets	\$-28.992bn
Non-operating financial investments	Separate recovery sensitivity: 0–100% of \$229.7bn

This is a consistent **simplified bridge**, not a final audited net-debt figure. It deliberately does not subtract the full operating-lease liability when operating lease expenses are already embedded in EBIT forecasts. Nor does it treat all future procurement commitments as incremental debt: some spending is already captured in forecast capital expenditure and operating costs. Financing and contractual timing remain material uncertainties. [2]

Recoverable value of disclosed portfolio	Bear/share	Base/share	Bull/share
0%	\$48	\$159	\$374
25%	\$53	\$165	\$379
50%	\$58	\$170	\$385
75%	\$63	\$175	\$390
100%	\$69	\$180	\$395

What is inside \$229.7bn? The SEC filing describes a combination of investments in public/private equity, warrants, and convertible debt; the publicly traded equity and warrant portion is \$7.4bn. Amazon separately reports \$122.3bn of private equity interests outside the equity method, including Anthropic and OpenAI, and describes \$28.7bn of OpenAI preferred stock held at June 30, 2026. These are **overlapping categories**, not figures to add to \$229.7bn. The \$21.3bn of OpenAI preferred shares funded after quarter end are a subsequent event: adding the asset without reducing funding cash would double-count value. [2]

Bridge completeness: This sensitivity uses a June 30 balance sheet and assumptions rather than a pro-forma October balance sheet. The aggregate \$650.0bn contractual-commitment schedule includes obligations that overlap with operating expenses, capex and finance commitments already projected. Subtracting it in full would itself double-count costs. Neither a line-by-line instrument valuation nor a complete October pro-forma balance sheet is available in this model; therefore the

central per-share figure cannot be certified as a definitive equity fair value. [2]

These scenarios do not imply all securities could be sold for the stated values. Different preferred shares, convertible notes and warrants carry different rights, liquidity constraints and contingent exposures. A single recovery percentage is presented only as a **sensitivity test**, not as the valuation of each individual holding.

10. What could move the stock higher or lower?

Signal	Why it matters	Direction if sustained
AWS maintains growth and healthy margins	Evidence of demand and pricing strength	Positive
Capital spending normalizes while cash flow grows	More cash available after reinvestment	Positive
AWS growth slows alongside margin compression	Reduces normalized operating value	Negative
AI investments suffer impairments	Lowers value of non-operating assets	Negative
Higher interest rates / valuation multiples compress	Raises discount rate on future cash flow	Negative
Share dilution accelerates	Lowers value of each individual share	Negative

11. The decision: is Amazon cheap at \$262.45?

Our conclusion: Amazon is an outstanding company. At the 19 October 2026 reference price of \$262.45, however, **our Base operating DCF plus a 50% illustrative recognition of the disclosed investment portfolio implies about \$170 per share**. The implied gap is negative, but it should not be mistaken for a proven overvaluation: the value of AI holdings, future financing, long-run capital intensity and terminal assumptions are all uncertain. The same framework produces dramatically different outcomes under optimistic assumptions.

We therefore see **no demonstrated margin of safety** at the reference price. A more attractive entry would require either a materially lower stock price or convincing evidence that sustained cloud profitability and cash-flow normalization support higher intrinsic value. Investors should not confuse an excellent business with an automatically attractive purchase price.

12. Methodology, source register and data availability

Facts: historical SEC-reported financial figures, dated price quotes and reported contractual disclosures. **Analyst assumptions:** all 2026–2036 forward revenue, tax rates, margins, capex, discount rates, recoverability haircuts and share-count forecasts. Figures are in USD; rounded display values may not sum exactly.

[1] Amazon FY2025 Form 10-K: <https://www.sec.gov/Archives/edgar/data/1018724/000101872426000004/amzn-20251231.htm>

[2] Amazon Q2 2026 Form 10-Q: <https://www.sec.gov/Archives/edgar/data/1018724/000101872426000026/amzn-20260630.htm>

[3] AMZN closing prices, 19 October 2026: <https://stockanalysis.com/stocks/amzn/history/>

[4] Accompanying data: Amazon_2026_DCF_Full_Recalculaton.csv, Amazon_2026_DCF_Scenario_and_Sensitivity.csv and Amazon_2026_DCF_WACC_Terminal_Sensitivity.csv. The CSVs are supplied in the ZIP. CSV files contain projected annual numerical outputs and assumptions; formula methodology is stated above. They are not spreadsheet formulas or an independently audited forecast.

Independent calculation control: Annual FCFF, 10-year present values, discounted terminal values, enterprise values, the equity bridge and each share-value sensitivity have been recomputed from the supplied inputs. Checking calculations does not establish that forecast assumptions are economically probable. Charts based on older source years have not all received a separate line-by-line primary-source audit; source-linked historical tables are the authoritative presentation.

Publication note: This report intentionally uses original data visualizations and no unlicensed third-party photographs. Historical comparison charts and DCF outputs should be linked to their underlying data when adapted for the website. Scenario fair values are indicative, not personalized financial advice.