COMPANY DEEP DIVE

Amazon

started in 1994 as an online bookshop

The cloud business is growing at its fastest pace in four years and now earns most of the profit, but Amazon is spending so much on AI data centres that its free cash flow has turned negative. The question is whether the bet pays back.

Global Markets Research · Technology Desk Prepared by ANDRA MARKETS

strong quarter, but the story is capex

Coverage summary. Amazon reported second-quarter results on 30 July that beat expectations across the board. Revenue rose 20 per cent to $200.6 billion, the first quarter above $200 billion, and operating income rose 43 per cent to $27.5 billion. Amazon Web Services (AWS), its cloud division, grew 37 per cent, the fastest rate in 18 quarters, and generated 60 per cent of group operating profit. At the same time, Amazon raised its planned capital spending for 2026 to about $220 billion, and free cash flow over the past twelve months turned negative. The shares rose 15 per cent the day after the results and closed at $259.92 on 7 October. Third-quarter results are expected around 29 October. This note examines the businesses, the spending plan, cash flow and valuation.

Share price, 7 Oct	Q2 revenue	AWS growth	Free cash flow, TTM
$259.92	**$200.6bn**	**+37%**	**−$7.6bn**
market value $2.80tn	*+20% year on year*	*$42.2bn in the quarter*	*vs +$18.2bn a year ago*

Exhibit A. Key figures, second quarter of 2026

Metric	Q2 2026	Q2 2025	Change
Net sales ($bn)	200.6	167.7	+20%
North America / International ($bn)	116.2 / 42.2		+16% / +15%
AWS net sales ($bn)	42.2		+37%
Advertising ($bn)	19.8		+26%
Operating income ($bn)	27.5	19.2	+43%
of which AWS ($bn)	16.6	10.2	+63%
Diluted EPS ($)	5.75	1.68	incl. Anthropic gains
Capex, trailing twelve months ($bn)	173.0	107.7	+61%
Free cash flow, TTM ($bn)	−7.6	18.2	turned negative

AWS = 21% of sales, 60% of profit

EPS inflated by a $53bn gain on Anthropic, ignore it

Company results as reported on 30 July 2026. Capex is purchases of property and equipment. Colour convention (charts only): green marks growth or cash inflow, red marks cash outflow. Handwritten notes and highlights are Andra Markets commentary.

1.0 Executive Summary

Key takeaways

AWS is back in front. After two years in which Microsoft and Google grew their cloud businesses faster, AWS accelerated for the fifth quarter in a row to 37 per cent growth, with a backlog of signed contracts of $496 billion, about two and a half times its level a year earlier. Management says demand exceeds the capacity it can build, in 2026 and again in 2027.

AWS reaccelerating for 5 quarters in a row

$220bn a year = ~$600m every single day

The price is an enormous spending programme. Amazon expects to spend about $220 billion on capital projects this year, up from about $200 billion planned in February, partly because memory chips have become more expensive. Operating cash flow of $161 billion over the past year was not enough to cover it, so free cash flow was negative and long-term debt almost doubled in six months to $129 billion.

The market has changed its mind about the spending. When Amazon announced its $200 billion plan in February, the shares fell 11 per cent. In July, a higher plan came with faster AWS growth and a larger backlog, and the shares rose 15 per cent in a day. Investors are now treating the spending as a response to demand rather than a leap of faith, but that view depends on AWS growth staying high.

Feb: −11%. July: +15%. same plan, opposite reaction

2.0 Business Overview

Three businesses in one

Amazon is best known as the world's largest online retailer, but financially it is three businesses. The first is retail, reported as North America and International, which together produced $158 billion of revenue in the quarter at thin margins of 7.9 and 4.1 per cent. The second is advertising, mainly sponsored product listings on its shopping site and ads on Prime Video, which brought in $19.8 billion and grew 26 per cent. The third is AWS, which rents computing power, storage and AI services to companies and governments and earns an operating margin of about 39 per cent.

retail = volume, AWS + ads = profit

Prime members fund the flywheel

The three reinforce each other. Prime subscriptions keep shoppers loyal, the traffic they generate makes advertising valuable, and the profits from AWS and advertising fund lower prices and faster delivery. Amazon is also investing heavily in warehouse robotics, and expects to more than double its fleet of robotic arms this year, which over time should lower the cost of each delivery.

3.0 Second-Quarter Results

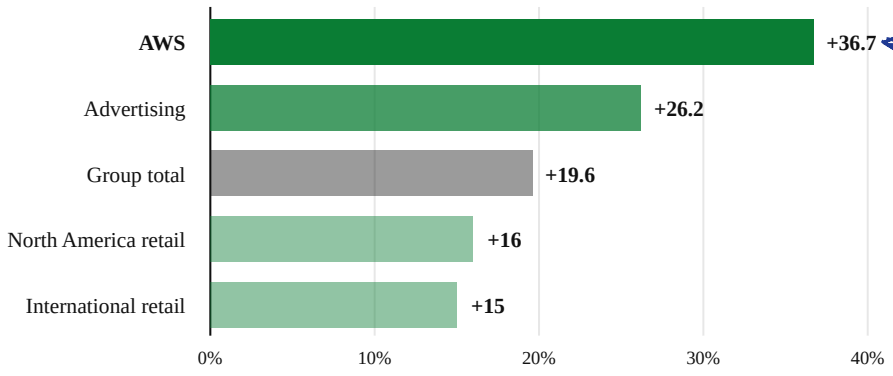
Beat across the board

Revenue grew 20 per cent, helped by the decision to hold the summer Prime Day sales event from 23 to 26 June this year, in the second quarter, rather than in July as in 2025. North American sales rose 16 per cent and International 15 per cent. Operating income rose 43 per cent to $27.5 billion, a margin of 13.7 per cent, which included about $1.2 billion of one-off benefits. Reported net income of $62.6 billion, or $5.75 a share, was inflated by a pre-tax gain of $53.4 billion, mainly on Amazon's investment in the AI company Anthropic, and says little about the underlying business.

Prime Day moved from July to June, flatters Q2

Exhibit 1. Year-on-year revenue growth by business, Q2 2026 (%)

fastest in 18 quarters

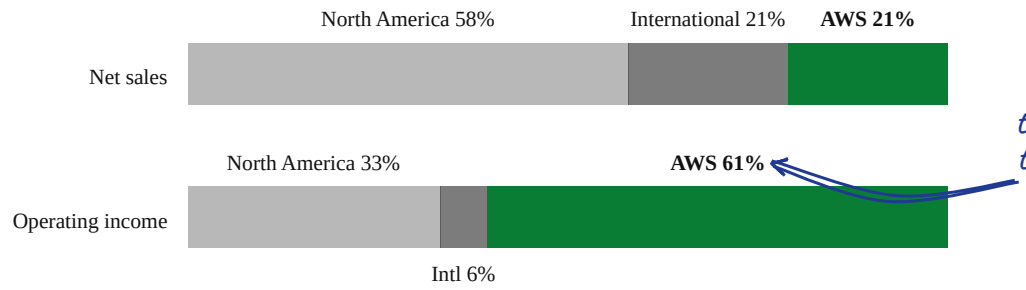


Source: Andra Markets; Amazon Q2 2026 results. Group growth calculated from reported net sales. Advertising revenue is included in the retail segments.

ads: $80bn a year, almost all margin

Advertising remains the hidden profit engine of the retail business. At $19.8 billion in the quarter, it is now running at close to $80 billion a year and growing faster than retail sales, and because it uses Amazon's existing shopping traffic, most of that revenue is profit. Together with AWS, it explains why operating profit grew more than twice as fast as revenue.

Exhibit 2. Share of net sales and of operating income by segment, Q2 2026 (%)



the cloud pays the bills

Source: Andra Markets calculations from Amazon Q2 2026 segment results. Green marks AWS.

4.0 Amazon Web Services

The engine of the group

$169bn run rate, bigger than most companies

AWS revenue rose 37 per cent to $42.2 billion, an annualised run rate of about $169 billion, and its operating income rose to $16.6 billion from $10.2 billion. The operating margin of 39.4 per cent included a one-off gain on an energy contract; excluding it, the margin was about 38 per cent, still well above last year. Two newer businesses inside AWS, AI services and Amazon's own chips, each have an annual run rate above $25 billion and are growing at triple-digit rates. Anthropic and OpenAI have both signed multi-year commitments to use Trainium at a scale of several gigawatts.

Anthropic + OpenAI both on Trainium

backlog $496bn = ~3 years of AWS revenue

The most important figure is the backlog. Contracted future revenue reached $496 billion, roughly three years of current AWS sales, and grew about two and a half times in a year. Chief executive Andy Jassy said Amazon will not have enough capacity to meet all demand in 2026, expects the same in 2027, and already sees striking demand for 2028. Most of the capacity Amazon will add in 2027 is already reserved by customers.

5.0 Capital Spending and Cash Flow

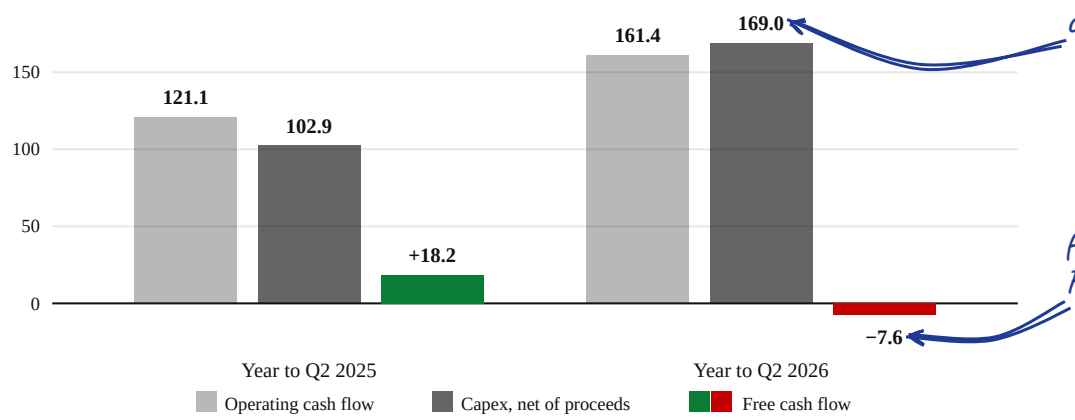
The cost of growth

Purchases of property and equipment reached $54 billion in the second quarter and $173 billion over the past twelve months, up 61 per cent from a year earlier. Most of it is for AI: data centres, power, servers and chips. Amazon now plans about $220 billion of cash capital spending in 2026, around $20 billion more than in February, partly because the price of memory chips has risen sharply, a trend analysed in our note on Micron.

capex up 61% in a year!

Exhibit 3. Operating cash flow, capital spending and free cash flow, trailing twelve months ($bn)

spending > cash coming in



first negative FCF in years

Source: Amazon Q2 2026 results. Net capex for 2025 derived by Andra Markets from reported operating and free cash flow.

debt: $66bn to $129bn in 6 months

The result is a sharp change in Amazon's financial profile. Operating cash flow rose 33 per cent to $161 billion, but net capital spending of $169 billion exceeded it, leaving free cash flow at minus $7.6 billion against plus $18.2 billion a year earlier. To fund the gap, long-term debt rose from $66 billion to $129 billion in six months, joining the wave of AI bond issuance that the Federal Reserve mentioned in its latest minutes. Management argues that the economics are sound: a server pays for itself in a little under three years and is used for five to six, and most new capacity is pre-sold. Amazon plans to double the power capacity of its data centres between the end of 2025 and the end of 2027. The risk is that depreciation on this spending will weigh on margins for years if demand slows.

break-even ~3 yrs, life 5 to 6 yrs: OK if demand holds

6.0 Third-Quarter Outlook

A distorted comparison

headline growth will look weak, it's the calendar

Amazon guided third-quarter revenue of $197 billion to $202 billion, growth of only 9 to 12 per cent, and operating income of $22.5 billion to $26.5 billion, against $17.4 billion a year earlier. The weak sales guidance is mostly about the calendar: last year's Prime Day fell in the third quarter and this year's did not. Management estimates that, excluding Prime Day, growth would be almost four percentage points higher, and currency movements are a further headwind of about 0.8 points. The autumn Prime Big Deal Days sale took place on 6 and 7 October, so it will count in the fourth quarter.

watch AWS growth, not total sales

7.0 Valuation

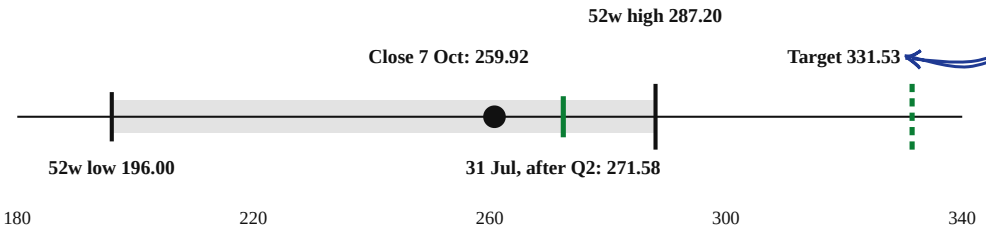
Paying for AWS

trailing P/E is fake-cheap because of Anthropic gains

At $259.92, Amazon is worth about $2.80 trillion. Its reported trailing price to earnings ratio of about 21 is flattered by the Anthropic gains; on analysts' forecasts for the next twelve months, the shares trade at about 27 times earnings. The shares are about 10 per cent below their 52-week high of $287.20, reached after the results, and well above the low of $196. Of the 59 analysts covered by StockAnalysis, the consensus rating is a strong buy, with an average price target of $331.53, about 28 per cent above the current price.

Exhibit 4. Amazon share price: 52-week range, key levels and consensus target ($)

analysts see +28%



Source: StockAnalysis (market data at 7 October 2026 close; consensus of 59 analysts); Levelheaded Investing for the 31 July close. Shaded band: 52-week range.

The valuation rests mainly on AWS. A business growing close to 40 per cent with a backlog of almost half a trillion dollars and margins near 40 per cent would justify a large part of Amazon's market value on its own, with retail and advertising on top. The bear case is that the spending required to sustain this growth keeps free cash flow negative for longer than investors expect, and that AI demand proves more cyclical than the backlog suggests.

sum of parts: AWS alone could be worth half the company

8.0 Risk Considerations

Where the case could break

AI capex risk is THE risk

The main risk is the AI investment cycle itself. If demand from AI developers slows, or if a few large customers such as Anthropic and OpenAI, which depend on outside funding, scale back their commitments, Amazon would be left with expensive, fast-depreciating capacity. Higher memory and energy costs could raise the bill further. In retail, a slowdown in consumer spending, tariffs on imported goods and competition from low-cost platforms such as Temu and Shein are the main pressures, and regulators in the United States and Europe continue to scrutinise Amazon's marketplace practices.

Anthropic + OpenAI = big customers AND big bets

9.0 Outlook and Monitoring Points

What to watch

29 Oct: the big test

Third-quarter results, expected around 29 October, will show whether AWS growth can stay near 37 per cent as new capacity comes online. The key indicators are AWS growth and backlog, any further change to the 2026 capital spending plan and the first indications for 2027, the trend in free cash flow, and advertising growth. If AWS keeps accelerating, the spending will look justified; if it slows while capex keeps rising, the market's July enthusiasm could reverse as quickly as it arrived.

checklist: AWS %, backlog, capex, FCF

verdict: AWS justifies the price, but only if the spending turns into cash

Methodology and Source Notes

Method. This note reviews Amazon's results for the second quarter of 2026, published on 30 July 2026, together with the earnings call and market data at the close of 7 October 2026. Segment shares in Exhibit 2, group growth, 2025 net capex in Exhibit 3 and the comparisons in the handwritten notes are Andra Markets calculations from reported figures. Forward multiples and price targets are consensus figures from StockAnalysis. Amazon is a major investor in Anthropic, and its reported earnings include large gains on that investment; we exclude them from the analysis of the underlying business. Handwritten notes and highlights are informal commentary by the desk. This note is analysis, not investment advice.

Principal sources. Amazon, second-quarter 2026 results release (Business Wire, 30 July 2026); Vectorshift and Investing.com, earnings call coverage (July 2026); Let's Data Science and CNBC, on the capital spending update (30 July 2026); Levelheaded Investing, on the share price reaction (August 2026); TECHi, on Prime Day timing (October 2026); StockAnalysis, for market data.

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