Mr. Market Thinks Amazon Will Rule The World

During a recent Earnings Recap session, we talked about Amazon (AMZN) and did a deep dive into its valuation. The results were shocking. When you look under the hood of the stock's valuation, you see that the market's expectations for future cash flows are shockingly high. Shocking. Let's get specific

Expectations Investing Analysis on AMZN

As we do for all of our Reverse DCF Case Studies, we use our valuation models to quantify the future performance of the company required to justify its current stock price.

Specifically, our model shows that to justify ~$239/share Amazon would have to:

1. grow revenue at 10.9% compounded annually for 39 years while also
2. improving its return on invested capital (ROIC) from 14% to 64%.

Let's put some context around those expectations.

Benchmarking Expectations for AMZN

First, growing revenue at 10.9% CAGR for 39 years means Amazon's revenue would be $32.2 trillion in 2063.

$32.2. trillion is 26% greater than the United States' GDP in 2024. $32.2. trillion would also rank Amazon as the third largest GDP in the world in 2063. See Figure 1 for details.

Figure 1: Comparing Amazon's Revenue to the GDP of the Largest Countries in the World

Global Rank	Country/Company	2024	2063*
1	U.S. GDP	$25.4	$117.4
2	China GDP	$14.7	$68.0
3	Japan GDP	$4.3	$19.6
23/3	Amazon Revenue	$0.6	$32.2

$ values in trillions

Sources: New Constructs, LLC and company filings. 2024 GDP stats from here.
*2063 GDP values assume a 4% nominal compounded annual growth rate.

It is important to note that the stock price embeds expectations for revenue reaching $32.2 trillion while Amazon – **also** – increases its ROIC from 14% to 64%.

Video Case Study: Amazon's Stock Implies It Will Rule The World

As we discuss in our latest reverse DCF case study video, we think there are several reasons why the expectations embedded in Amazon's current stock price are too high.

Competitive Realities

Large revenue growth, like what's embedded in Amazon's stock price, implies significant market share gains. We note that market share gains are typically won with lower prices, which are not possible with a company that must also increase its ROIC to very high levels. Specifically, a 14% ROIC ranks 135th in the S&P 500 while a 64% ROIC ranks 11th, behind firms like Apple (AAPL), Mastercard (MA) and Nvidia (NVDA).

In other words, Amazon's stock price is implying a doubly-incredible future where the company enjoys huge revenue growth and ROIC improvement as well.

Currently, only one company, Apple, ranks in the top 10 of the S&P 500 for ROIC (7th) and revenue (3rd). Amazon's trailing 12 months revenue ($620 billion) ranks #2 in the S&P 500, just behind Walmart (WMT) at $674 billion. For reference, Walmart's ROIC is 11%.

So, hypothetically, Amazon would only need to dramatically improve its ROIC rank to join Apple as one of the few companies to rank so highly for ROIC and revenue at the same time.

More Expectations Investing Case Studies

Too few investors have the tools to unveil the details behind stock valuations. We make it clear and easy. Math is math. It's not supposed to be hard. Wall Street wants to keep you in the dark by making you think it is too hard to get the truth about valuation.

We shed light into the dark corners of the market and make them into opportunities to profit.

If you enjoyed seeing what we show for Amazon's real cash flows as well as the future revenue expectations baked into the stock price, you'll love our other reverse DCF case studies.

More Expectations Investing Case Studies

With our reverse DCF model, it's easy and only takes a few seconds to quantify the impact of anything that affects future revenues, margins, and cash flows.

If you're interested in seeing more examples of how our DCF model works, I recommend checking out the Reverse DCF Case Studies here in our Online Community. To join our Online Community, complete this form.

Our community is free to join as is access to the Reverse DCF case studies.

How To Avoid the Landmines

Whenever stocks get super expensive, it is only a matter of time before they fall back to earth as the law of competition inevitably proves the expectations for future cash flows to be overly optimistic.

We have multiple Model Portfolios, including our Zombie Stocks list, to warn investors of stocks to avoid and alert them to stocks that get our Attractive rating. We also provide best-in-class ratings for stocks, ETFs, and mutual funds.

We hope you enjoy this research. Feel free to share with friends and colleagues!

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It's Official: We Deliver the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
3. Our proprietary drives novel alpha. Our measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

In The Journal of Financial Economics, a top peer-reviewed journal, Core Earnings: New Data & Evidence proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior fundamental data, earnings models, and research. More details.

Key quotes from the paper:

- "[New Constructs'] *Total Adjustments* differs significantly from the items identified and excluded from Compustat's adjusted earnings measures. For example… 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global's (SPGI) Adjustments* individually." – pp. 14, 1st para.
- "A final source of differences [between New Constructs' and S&P Global's data] is due to data collection oversights…we identified cases where Compustat did not collect information relating to firms' income that is useful in assessing core earnings." – pp. 16, 2nd para.

Superior Models

Ernst & Young features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg's in Getting ROIC Right. See the Appendix for direct comparison details.

Key quotes from the paper:

- "…an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC." – pp. 8, 5th para.
- "The majority of the difference…comes from New Constructs' machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies." – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts' stock ratings outperform those from human analysts as shown in this paper from Harvard Business School. Bloomberg features the paper here.

Key quotes from the paper:

- "the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant." – pp. 6, 3rd para.
- "Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts." – pp. 20, 3rd para.

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We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are here.

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