QUARTERLY REPORT

3rd QUARTER 2016 IP-Participações

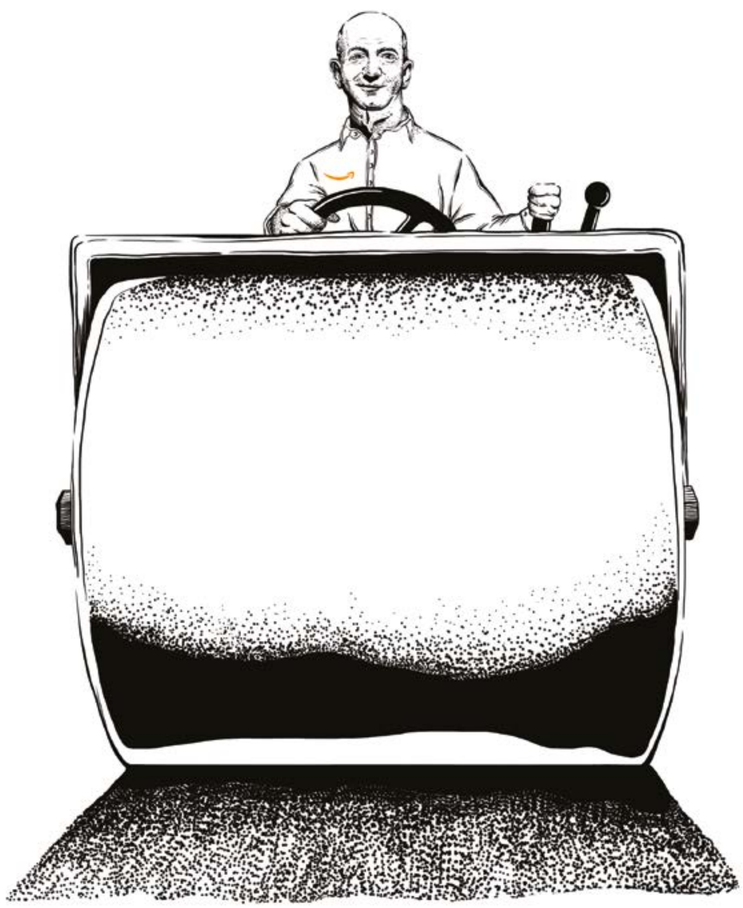

Illustration: Cecilia Abeid

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In our first-quarter report, we briefly mentioned that we, once again, started buying Amazon shares. In the second quarter we gradually increased that position. In recent months, the company's shares strongly appreciated and, while we were finalizing this report, reached record highs. We thus reduced our investment. However, given the unique aspects of the business model and the numerous opportunities in the horizon, we still hold a position in the IP-Participações fund.

We have monitored Amazon for a long time, in large part due to the influence and perspectives from the IP-Global fund (current PIPA Global Equities) throughout the years.

In this report, we have gone into more detail than usual. We will explain some of the reasons why, over the past four years, Amazon's shares have often been part of IP-Participações' portfolio.

We have focused solely on the company's retail business. The cloud infrastructure division – Amazon Web Services (AWS) – will be addressed in a future report[1].

AMAZON

"Amazon is guided by four principles: (1) customer obsession rather than competitor focus, (2) passion for invention, (3) commitment to operational excellence, and (4) long-term thinking."[2]

How was this possible? This simple question is perhaps the most repeated one regarding Amazon. We can break it down into three other questions:

I. What competitive advantages sustain Amazon's growth at such high rates?

II. How did the company invest and grow, without leverage, despite posting extremely modest profits?

III. Considering an increasingly robust sales platform, what new business lines can the company implement?

We believe the answer to all these questions has the same starting point: *customer obsession rather than competitor focus*, the first and most important of the company's four principles.

It is much easier to find companies that excel at these other principles (3M and Google with unquestionable "passion for invention" and Ambev, Danaher and Localiza as role models in "operational excellence"). Yet, it is rare to find a company that has taken customer obsession to such unprecedented heights.

The truth is that, without customers, all other stakeholders are irrelevant. **Amazon's formula is simple: conquer customers with outstanding service and attractive prices and the rest will follow.**

Most companies are not like this. What should be a

[1] We obviously give due attention and value to this division: it is not every day we come across a business with over US$10 billion in revenues and an annual growth rate above 50%.
[2] Amazon's Investor Relations website.

top priority – creating, nurturing and captivating customers – turns into a dispersed effort amidst the corporation's multiple objectives. Developing outstanding products or services becomes an afterthought. Efforts towards short-term goals become prevalent, such as squeezing suppliers, lobbying politicians, exploring tax inefficiencies, increasing prices without clear equivalence in value, and so on.

Below, we will answer in more detail the questions above. We hope this information clarifies the beauty of Amazon's business model as well as the reason why we choose to be shareholders.

I. What competitive advantages sustain Amazon's growth at such high rates?

Some advantages to traditional retailers have contributed to the company's growth since its early years: (i) a leaner and more efficient operating cost structure, (ii) virtually unlimited product assortment, (iii) a highly convenient purchasing process, (iv) service customization, (v) quick delivery, and (vi) consumer confidence (given the low level of incidents and the agile solutions provided by Amazon when these do arise).

The company maximized these advantages impressively with a special peculiarity. **In a world packed with digital platforms, where the largest passenger transportation company does not own vehicles (Uber), the largest hospitality company does not own properties (Airbnb) and the largest media company does not produce content (Facebook), Amazon stands out by combining the advantages of digital platforms (asset light) and the capillarity of the physical world (asset heavy) supported by investments in logistics and distribution.**

These advantages grant Amazon another singularity: strong expertise in logistics, IT and retail.

If we examine the greatest retail success stories, we will find highly competent companies in two of those segments, but never all three. Sears, Walmart and Inditex, for example, stand out for their successes in both logistics and retail. Other companies, such as Alibaba, eBay and Rakuten have effectively combined retail and IT. Operating in these three segments with this level of excellence – and focus on customers – is what has led Amazon to consistently stay ahead of the pack.

Amazon has been relentlessly strengthening its main attractions: broad assortment, low prices and quick delivery. It adds to its website new product and service categories year after year, consistently expanding its market reach.

Notably, it developed three business lines that became the engines of Amazon's explosive growth in retail: Prime, Marketplace and FBA (Fulfillment by Amazon).

Prime and Marketplace

Prime was launched in 2005 in the United States and was later expanded to other countries. For a US$79 annual subscription (currently US$99), Amazon offered free 2-day delivery for a wide range of products. The idea was simple and effective, as explained by Robbie Schwietzer, the Division's VP, in 2013: *"Once you become a Prime member, your human nature takes over. You want to leverage your $79 as much as possible. Not only do you buy more, but you buy in a broader set of categories. You discover all the selections we have that you otherwise wouldn't have thought to look to Amazon for."*

The Marketplace allows third-party sellers to list their products on Amazon's website through a model similar to eBay or Mercado Libre, in which Amazon charges sellers a percentage of the product's value for connecting them to buyers. When using Marketplace, sellers have access to Amazon's customers, and the company, in turn, broadens its product assortment. Items can be delivered by sellers themselves, through FBM (Fulfillment by Merchant), or by Amazon, through FBA (Fulfillment by Amazon), which is perhaps the company's most genius idea – as we will see below.

FBA

"FBA completes the circle: Marketplace pumps energy into Prime, and Prime pumps energy into Marketplace." Jeff Bezos – 2014 Annual Report.

Before FBA, the Prime and Marketplace divisions operated independently. After its creation, the three divisions became highly interconnected and began to maximize each other's results.

	Strategy		
Expertise	Retail	IT	Logistics
Vision	Low Price	Assortment	Delivery Speed
Business	Prime	Marketplace	FBA

When independent sellers opt for FBA, they send their products to an Amazon fulfillment center (DC). Amazon is responsible for delivering the products to end customers in addition to managing after-sale operations. The company charges sellers a daily rent per m^3 for stocking products in its fulfillment centers (FCs) and makes them available to Prime customers. That is, products will be delivered free of charge in up to two days.

The FBA model introduced a new virtuous cycle for Amazon: the more sellers use it, the broader the product selection - available for 2-day delivery to Prime members - becomes. Prime in turn becomes more attractive for customers, boosting the entry of new members. And the larger Prime's customer base is the more attractive the FBA service is for sellers. This flywheel effect propels Amazon's growth and strengthens the company's sales platform further.

A few figures can help to comprehend the magnitude of what has thus far been accomplished:

- When Prime was created in 2005, approximately 1 million different products (SKUs[3]) were available for 2-day delivery.
- After the creation of FBA in 2006 this figure grew exponentially to 15 million in 2012.
- By the end of 2015, the Prime system had more than 30 million eligible SKUs.

The table below shows the number of SKUs available[4] in 2015 by type of delivery:

Amazon: Delivery Options and SKUs Available

Service	Delivery Locations	# SKUs for sale
Standard Shipping on Amazon.com	All U.S cities	~ 350.000.000
Prime: 2-day Shipping	All U.S cities	30.000.000
Prime: Same-day Shipping	27 Metropolitan Areas	1.000.000
Prime Now: Two-hour Shipping	27 Metropolitan Areas	25.000

To support this achievement, Amazon invested heavily in logistics and distribution. The number of FCs shot from 20 to 123 between 2005 and 2015. If we consider all logistics units, such as warehouses in urban regions, product sorting centers and delivery centers - in addition to FCs - there are currently more than 300 locations worldwide dedicated to fulfillment.

[3] SKU: stock keeping units.
[4] Amazon's total number of SKUs was estimated by the pricing survey company, 360pi.com. This total does not include book, wine and service categories.

In recent years, Amazon has particularly impressed us with the evolution of its logistics system. As we will see below, the Prime Now and AmazonGlobal programs open the door to numerous new opportunities. While Prime Now increases convenience for buyers and provides advantages for sellers closest to them, AmazonGlobal connects more distant sellers to the ecosystem.

Prime Now

The Prime Now service was first offered in Manhattan in December 2014. As in the table above, it enables free delivery of up to 25,000 SKUs to Prime customers in up to two hours, or in up to one hour for US$7.99 per delivery.

From then on, Amazon launched an aggressive campaign to open logistic warehouses in urban regions – the so-called Prime Now hubs. However, by the end of 2015, the number of new cities supplied by Prime Now was limited. It seemed the company was testing the soundness of its service. Once concluded, Prime Now's rollout happened in a heartbeat. Now, less than two years after its launch and with over 60 fully functioning Prime Now hubs, the service covers 27 metropolitan areas in the U.S., in addition to 18 cities in the United Kingdom, Germany, France and Japan (11 of which are in the U.K. alone).

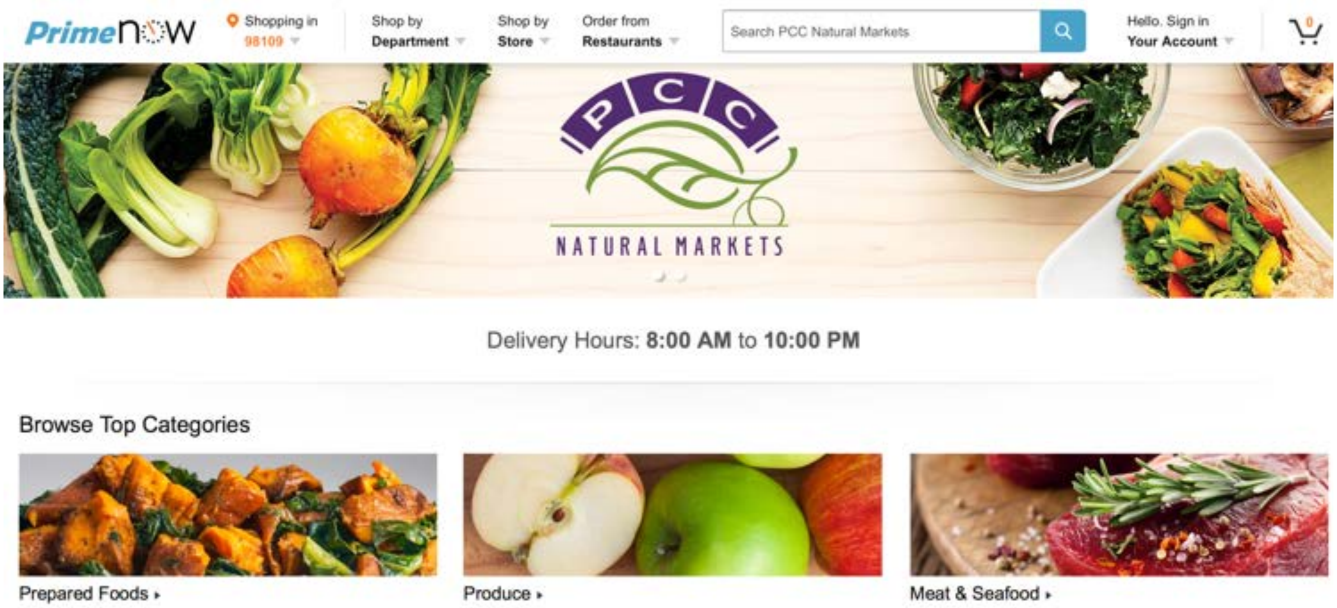
A two-hour delivery yields immediate consequences: impulse purchases become relevant and higher replacement-rate products can be consumed in larger volumes. Amazon now dives into the food, home cleaning and personal hygiene markets. In the US alone, the sum of these markets is above US$1 trillion.

The beauty of Prime Now is not restricted to these potential new markets. Although incipient, the service also enables neighborhood stores to sell their products to Prime customers.

Imagine you own a natural food store. With Prime Now, Amazon enables you to create a page dedicated to your store at https://primenow.amazon.com/. After this integration, whenever Prime customers near your store visit Prime Now's website, they can purchase your products.

In other words, a Prime customer purchasing diapers, beer, deodorant and ice cream (yes, you can even buy ice cream!), can also buy healthy products from your natural food store. The truck (or vehicle) departing from the Prime Now hub with the first four items will also collect the order made at your store and deliver everything at the customer's home.

The example above is already an existing store, as shown in the figure below:



The integrated neighborhood store model leverages the Marketplace and FBA services. It increases the number of sellers participating in Amazon's ecosystem, but, using FBA slightly differently: instead of sending products to Amazon's DC, Amazon collects these from sellers on its way to deliver orders. More sellers, broader assortments and faster deliveries lead to more Prime customers. The virtuous cycle is fueled once again.

The Prime Now model for third-party vendors exemplifies how Amazon's system develops and grows. The company is almost always the first user of its own services. After gaining critical mass, it makes them available to third parties. Marketplace, FBA, AWS, Echo and Prime Now all followed the same playbook.

AmazonGlobal

Unlike Prime Now, AmazonGlobal is not new. It allows sellers to list their products for sale in different countries in two ways:

- FBA Exports (FBA-E): While using the FBA service, sellers can pay an extra service fee to make their products available for customers in more than 180 countries. The export process is conducted by Amazon;
- Global Selling with Amazon (GSA): A seller in China, for example, can export his products to one of Amazon's U.S. fulfillment centers, and therefore, have access to the U.S. Prime customer base. The export process is conducted by the seller.

Currently, approximately 25% of third-party sales (Marketplace) are made to customers in other countries. Even with its significant volume, FBA is far from reaching its full global potential. The Prime + FBA + Marketplace virtuous cycle does operate, but not at the same speed as between buyers and sellers in the same country. With FBA-E, for example, products take much longer than two days to arrive at customers' homes, while GSA does not offer sellers the same convenience as FBA does for local sales – as they must conduct the export process themselves.

Earlier this year, Amazon made a series of announcements revealing its aim to extend AmazonGlobal's reach:

- It obtained registration with the Federal Maritime Commission to transport containers between China and the United States. This means Amazon is entitled to buy cargo space on ships as well as sell shipping and freight services to third parties.
- It leased 40 Boeing 767 aircrafts from two logistic operators. It also bought a 20% stake in these two companies.
- In Europe, it partnered with another logistics operator to air transport products between the United Kingdom, Germany and Poland.
- In the U.S., it began to operate an airport in Ohio, previously run by DHL.

When exporting from China to the U.S., it would be more convenient if sellers could send their products to an Amazon fulfillment center in China. Once plugged into Amazon's logistics system, Amazon would conduct the entire bureaucratic export process to the Unites States. In practical terms, GSA would become FBA Exports for Chinese sellers.

This is precisely what Amazon intends to do: create a global FBA program, which is simple for sellers and agile for buyers, moving products efficiently through an integrated global e-commerce platform.

In May 2016, this ambitious project began to materialize with the Pan-European FBA program launch. It allows European sellers to send their products to Amazon's closest fulfillment center and make these available for delivery to all EU Prime customers with 2-day delivery. All with no additional cost (sellers will pay the same rent per m^3). Before products are sold Amazon redistributes inventories between its 29 fulfillment centers in Europe based on the probable demand in each region.[5]

That is not all. Amazon is preparing to cut distributors and be more aggressive regarding the direct supply of products, given that, when operating maritime and air routes, it can directly access product manufacturers around the globe.

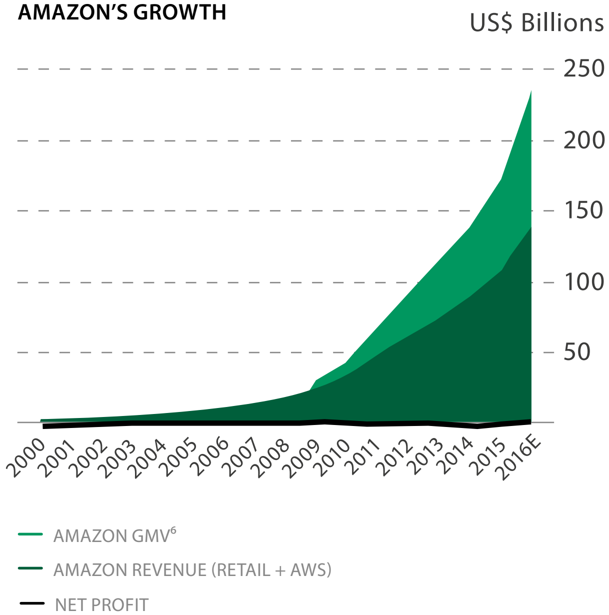
Imagine the possibilities. With a global FBA and Prime Now, Amazon would be active in virtually all stages of

[5] In 2013, Amazon patented an "anticipatory shipping" technology. With this technology, the company places products near customers' locations before they are even purchased. This is calculated by algorithms based on the probability a customer will purchase a particular product given their browsing and search behavior on Amazon's website.

the distribution chain. In a not too distant future, all links can be connected: factories, sellers in multiple countries, neighborhood stores and loyal customers, creating an even more robust and comprehensive platform than today. Buyers will access more sellers and vice versa, boosting the value of participating in the ecosystem. Once again, asset heavy investments will maximize the company's asset light technology platform and make its competitive advantage even more implacable.

II. How did the company invest and grow, without leverage, despite posting extremely modest profits?

AMAZON'S GROWTH



"When forced to choose between optimizing the appearance of our GAAP accounting and maximizing the present value of future cash flows, we'll take the cash flows" – Jeff Bezos, 1997 Annual Report.

"Percentage margins are not one of the things we are seeking to optimize. It's the absolute dollar free cash flow per share that you want to maximize, and if you can do that by lowering margins, we would do that." – Jeff Bezos

Jeff Bezos: *"We do price elasticity studies. And every time the math tells us to raise prices."*

Charlie Rose: *"But why don't you do it?"*

Jeff Bezos: *"Because doing so would erode trust. And that erosion of trust would cost us much more in the long term."*

Over the last 10 years, Amazon has disbursed US$26 billion in CAPEX and acquisitions for an accumulated profit of only US$4.6 billion. During this period, the company's net cash increased from US$0.7 billion to US$5.6 billion (including capital leases as debt). How was this possible? Three effects explain this phenomenon:

- *Negative working capital of almost US$17 billion.* In 10 years the company freed US$12.7 billion in working capital to its cash flow – almost triple the accounting profit. In the previous year alone, the company freed US$3 billion[7]. This happens because it receives cash from its sales (e-commerce and

[6] GMV: Gross Merchandise Value. Includes the gross value of third-party sales through Marketplace, on Amazon's website. These are IP's estimates.
[7] This US$3 billion amount also includes other non-cash expenses in addition to working capital, equivalent to US$486 million in 2015.

AWS) in 22 days, carries its inventory for 34 days and pays suppliers (and other accounts payable) only 104 days later. In addition, it receives Prime's membership fees in a lump sum but recognizes that revenue on a monthly basis in the income statement. Since the number of Prime customers has been growing at a rate of 50% p.a., this effect has increased in recent years.

- *An elevated level of depreciation and amortization expenses*. In 10 years, depreciation and amortization totaled US$15 billion and US$4 billion respectively – related to amortization of intangible assets, capitalized software development costs and video content of Amazon Studios. In 2015, depreciation stood at US$4.9 billion, while amortization totaled US$1.4 billion.

- *Capital Leases*. A resource that has gained importance over the years. As previously mentioned, US$26 billion in investments were disbursed in 10 years. However, in addition to this amount, Amazon financed US$16 billion in purchases of assets through leasing with an option to buy these at the end of the contract[8].

The table below summarizes Amazon's cash flow:

Amazon Cash Flow Statement (US$ billions)	**2006 - 2015**	**2015**
(+) Net Profit	**4.6**	**0.6**
(+) Depreciation & Amortization	19.2	6.3
(+) Working Capital & Other	12.7	3.0
(+) Non-cash Expenses (Stock-Based Compesation)	7.5	2.1
Operation Cash Flow	**44.0**	**12.0**
(-) Capex & Acquisitions	-26.2	-5.4
Free Cash Flow	**17.8**	**6.6**
(-) Capex via *Capital Leases* (*if paid immediately*)	-16.0	-5.2
Effective Free Cash Flow	**1.8**	**1.4**

[8] It is not correct to say that total investments correspond to the sum of US$26 billion in CAPEX disbursed plus US$16 billion in capital leases, totaling US$42 billion. A portion of the two types of investment is considered twice (we just do not know how much). This happens because a portion of the options to buy the assets from the capital leases are exercised and, therefore, become CAPEX over time.

Note that had the company not used capital leases, it would still have generated a positive cash flow in the period. Why do it then? The answer is simple: to create an expense in the income statement and reduce payable income tax. Capital leases generate an interest expense from the financing in addition to the depreciation of the financed asset itself.

This helps us understand a related issue. **If Amazon's competitive edge has increased significantly over time, why is Amazon still generating profits near zero? Part of the explanation: because it reinvests continuously in the business through expenses in the income statement, in addition to CAPEX, to pay the lowest income tax possible.**

This is key to understand Amazon's growth. To become the company with the fastest revenue increase in history (from US$1 to US$100 billion), virtually everything that was generated was reinvested, not only via CAPEX, but also through expenses (i.e. R&D), discounts on products and subsidies for services to its loyal customer base. This strategy led to several initiatives over time. Each of Amazon's cost and expense lines was used to create new businesses for the company, as shown in the figure below.[9]

Amazon Income Statement (US$ billions)	2015
Revenue	**107.0**
(-) Cost of Sales	-60.1
(-) Shipping Expense	-11.5
Gross Profit	35.5
(-) Logistics	-12.9
(-) Tecnology and Content	-11.3
(-) Marketing	-5.1
(-) General and Administrative	-1.5
Operating Profit	**4.5**

[9] This slide was inspired by a presentation on Amazon's business case prepared by Social Capital, a U.S. venture capital company.

It is not difficult to see how lucrative, for example, the Marketplace or Kindle divisions are. The profits exist but are immediately redirected towards new expenditures. The Amazon Prime case is also of note: in addition to 2-day free shipping, Amazon offers a variety of services for customers who pay the US$ 99 annual membership fee:

- Amazon Instant Videos: service equivalent to Netflix[10];
- Prime Music: service similar to Spotify[11];
- Prime Photos: unlimited storage of photos in the cloud;
- Kindle Owner's Lending Library: possibility to rent one book for free per month.

Although these services generate relevant costs, Amazon offered them with no additional fee to Prime customers. Last year, in its video streaming division alone, the company spent US$1.8 billion purchasing movies and TV series. Not to mention the expenses from Amazon Studios, where Amazon produces its own shows[12]. For comparison purposes, Netflix and Spotify memberships cost US$120 per year, each, in the United States.

Consequently, the company's force of attraction becomes stronger, fueling the number of customers wishing to maximize the return on their investment through Prime membership creating more business for Amazon.

Jeff Bezos was clear in the latest annual report: *"We want Prime to be such a good value, you'd be irresponsible not to be a member"*. Indeed, the amount of "irresponsible" people has gotten increasingly smaller. According to a survey by Consumer Intelligence Research from December 2015, Amazon had approximately 54 million Prime members in the USA[13], equivalent to 43% of 125 million households in the country.

The power of attraction of Amazon's platform – of which we speak extensively about throughout this report – is clear in the following table, which shows the performance of 20 comparable U.S. retailers in the first half of 2016. The table arranges companies by descending order of revenue in the period.

[10] Amazon Instant Videos does not have the same service quality as Netflix, but we would be worried if we were Netflix shareholders. It's not easy having Amazon point a blowtorch at you!
[11] Amazon Music makes approximately 2 million songs available to Prime customers, while Spotify offers around 30 million. In October, Amazon launched Amazon Music Unlimited, with virtually the same volume of songs as Spotify. Prime subscribers who wish to have this service must pay an additional US$7.99 per month. Prime subscribers who also have Amazon Echo in their homes will pay only US$ 3.99 for Amazon Music Unlimited.
[12] Such as the series Transparent, winner of the Golden Globe Award for best comedy series in 2015.
[13] Access the survey's summary in PDF: http://files.ctctcdn.com/150f9af2201/ae0b58e0-f4a5-4d83-916b-ec0757dc95db.pdf

	Revenue (US$ billions)[14]			
Company	**2015 S1**	**2016 S1**	**Δ Revenue**	**YoY %**
Amazon North America Retail	**27,202**	**34,670**	**7,468**	**27%**
Subtotal: Other 19 Companies	**521,763**	**528,823**	**7,060**	**1%**
Home Depot	45,720	49,234	3,514	8%
Lowe's	31,477	33,494	2,017	6%
Wal-Mart	235,055	236,758	1,703	1%
Costco	53,555	54,939	1,384	3%
TJX	14,229	15,424	1,195	8%
Dollar General	10,015	10,657	643	6%
Ross Stores	5,906	6,270	363	6%
Dollar Tree[15]	4,377	4,722	345	8%
L Brands	5,277	5,504	227	4%
Bed Bath & Beyond	6,075	6,156	81	1%
J.C.Penney	5,732	5,729	-3	0%
Nordstrom	6,916	6,900	-16	0%
Best Buy	17,086	16,976	-110	-1%
Kohl's	8,390	8,154	-236	-3%
Gap	7,555	7,289	-266	-4%
Staples	10,199	9,853	-346	-3%
Office Depot	7,317	6,762	-555	-8%
Macy's	12,336	11,637	-699	-6%
Target	34,546	32,365	-2,181	-6%

[14] We have cut Amazon's competitors some slack in this comparison: we showed these companies' consolidated revenue, while Amazon's revenue includes only the retail segment in North America.
[15] Dollar Tree's data refers to organic growth and, therefore, does not include the acquisition of Family Dollar.

Amazon's U.S. retail division added US$7.5 billion in revenue, a value superior to the sum of all other 19 retailers. In fact, Amazon's revenue data underestimates the relevance of third-party sales, through Marketplace, as said data only includes fees received due to transactions (not the full amount for products sold). Normalizing this effect, Amazon's GMV growth came to approximately 36% YoY. In other words, the revenue increase was over twice the sum of those posted by the other 19 U.S. retailers. A true annihilation!

III. Considering an increasingly robust sales platform, what new business lines can the company implement?

While Facebook knows what you like and Google knows what you search, Amazon knows what you buy (and how often). Unlike the first two companies, Amazon has not yet monetized this valuable database in a relevant way. With Prime Now and the growing demand for everyday use products, the opportunities to unlock value with online ads become clearer.

Before Prime Now, companies such as P&G, Unilever, L'Oreal, Reckitt, Nestlé, and PepsiCo, among others, were sitting back watching the e-commerce circus catch on fire. At most, it was a hobby for some. This is no longer true. Over the next few years, an increasing number of Prime customers will buy food, cleaning and hygiene products through Amazon. This trend is only just beginning.

It may seem counterintuitive but Amazon's entry into these segments is bad news for the major companies mentioned. Today, three pillars support their competitive advantages: brand, product and distribution. With Amazon, their third pillar will gradually weaken. Amazon is stealing this advantage for itself.

The distribution channel of these segments is a finite world of shelf space. Companies such as P&G spend large sums of their advertising budget to ensure the best display of products on shelves, in addition to participating in targeted promotional campaigns with retailers. They also spend huge amounts with TV ads and social media. Bottom line: whoever has greater scale, bargaining power and resources to spend has a major advantage in product display.

In the online world, competition is a more level playing field. There are no shelves. Space is unlimited. A small consumer goods company with a good product and intelligent marketing can be highly successful in the e-commerce world. (Those familiar with the Dollar Shave Club success story know what we are talking about.[16]) Simply find your target audience and Amazon will take care of distribution.

[16] *Unilever Buys Dollar Shave Club for $1 Billion (http://fortune.com/2016/07/19/unilever-buys-dollar-shave-club-for-1-billion/).*

To defend themselves, major companies will have to spend more on online marketing. This is where Amazon comes in. The Amazon Dash button is the start of this trend (see figure below). Amazon Dash is nothing more than the trade marketing of the online world, in which you pay Amazon to offer a fixed shelf inside customers' homes. Merely push a button for a new box of laundry detergent, for example, to be delivered to your home.

With Amazon Dash, instead of spending on keywords on Google or on Facebook pages, consumer goods manufacturers obtain valuable information with Amazon's data intelligence: they know who their most loyal customers are, those more sensitive to prices, those who purchase weekly and those that oscillate between two or three brands. Consequently, they can publish much more assertive ads towards customers.

Additionally, the evolution of AmazonGlobal, mentioned above, will also contribute to the growth of online ads. The more integrated Amazon's platform is with different countries, the higher the number of sellers competing in each product category for customers' attention. To remain relevant they will have to advertise their products.

Last year, Amazon restructured its marketing services division and substantially improved how sellers advertise products. Through the Amazon Sponsored Products program, sellers buy keywords to display their products at the top of search pages or on the right corner of the website. Sellers are charged a fee whenever users click on their ads – a system similar to that of Google's AdWords.

Curiously, Amazon is also becoming an online ad company, like Google and Facebook, even though its journey there has been completely different.

At a recent conference in New York, people made fun of how many times company CEOs were asked the same question: *"What are you going to do to curb Amazon's progress?"* Indeed, the list of the company's competitive targets just keeps growing. In addition to the great number of retailers, traditional technology companies, TV studios, and streaming content providers such as Netflix and Spotify, we have several new candidates joining the list, including convenience stores, B2B material distributors and payment companies. With the increase in advertising efforts, even the mighty Google might find itself in Amazon's collision course – considering that more than 40% of Americans look for products online directly on Amazon's website.[17]

* * *

With its expanding scale, Amazon's advantages over its competitors have dramatically increased. Ten years ago, skeptical arguments based on low entry barriers, a highly competitive business and narrow margins, made sense. For some years now, they no longer do. The success of its various business lines is so great that it becomes increasingly difficult for Amazon to "hide" (reinvest all of) its profits.

With a current market value of around US$400 billion, there is clearly a fairly optimistic expectation about future results. Our challenge has been to properly size our investment given the many positive features we see in the company, without disregarding our golden rule of avoiding permanent capital losses.

Jeff Bezos' incredible capacity to execute simultaneously on several fronts makes him one of the best CEOs we have ever seen – at just 52 years old. Considering also the company's impressive growth and reinvestment opportunities (rare in the developed world), we have a powerful combination for shareholders.

[17] *Survey conducted with 2000 Americans by BloomReach and Survata. http://bloomreach.com/2015/10/amazon-commands-nearly-half-of-consumers-first-product-search/*

MISCELLANEOUS

"It's not what you look at that matters, it's what you see

— Henry David Thoreau

"The purpose of business is to create and keep a customer."

— Peter Drucker

"This company, over time, is going to look like more of an e-commerce company."

— Doug McMillon, Walmart's CEO, October 6, 2016

"We don't wait for external pressures. We are internally driven to improve our services, adding benefits and features, before we have to. We lower prices and increase value for customers before we have to."

— Jeff Bezos

"We've had three big ideas at Amazon that we've stuck with for 18 years, and they're the reason we're successful: Put the customer first. Invent. And be patient."

— Jeff Bezos

"Take a long-term view and the interests of customers and shareholders align."

— Jeff Bezos

MISCELLANEOUS

"A dreamy business offering has at least four characteristics. Customers love it, it can grow to a very large size, it has strong returns on capital, and it's durable in time – with the potential to endure for decades. When you find one of these, don't just swipe right, get married."

— Jeff Bezos

"Your margin is my opportunity."

— Jeff Bezos

"What many people often get wrong about Amazon is that their primary goal is to be the 'everything store'. The reality is that Amazon wants to be the 'everything company', the 'world's biggest commercial enterprise'."

— Michael Zakkour

"Our approach remains the same, and it's still Day 1!"

— Jeff Bezos

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