

Amazon.com, Inc. (AMZN)

Post-earnings equity research note | Q2 FY2026 reported 30 July 2026 | Prepared 5 August 2026

WATCHLIST

Unchanged from previous report

Last close (4 Aug 2026)	\$277.42
Move since the print (30 Jul close \$235.50)	+17.8%
AWS revenue growth	+36.7%, fastest in 18 quarters
AWS backlog	\$496bn
Reported EPS / EPS excluding Anthropic gain	\$5.75 / ~\$1.95
Probability-weighted fair value	\$301

What the Quarter Changed

Amazon reported earnings per share of \$5.75 against a consensus near \$1.82, and the shares rose 15.3% the following session. Almost none of that earnings figure is what it appears to be, and the rally was nonetheless justified for reasons that have nothing to do with it.

The company disclosed plainly that second-quarter net income of \$62.6 billion “includes non-operating pre-tax other income of \$53.4 billion, primarily from our investments in Anthropic”. At the quarter’s effective tax rate of 22.6%, that gain contributed roughly \$41.3 billion after tax. Excluding it, net income was approximately \$21.3 billion and earnings per share approximately \$1.95, against the \$1.82 expected. The real result was a modest beat of about 7%, not a 216% one. Any commentary treating the \$5.75 as operating performance is describing a mark-to-market revaluation of a private stake.

The genuine news is in the segment detail. AWS revenue grew 36.7% to \$42.2 billion, the fastest rate in eighteen quarters and well ahead of the roughly 31% expected, reaching a \$169 billion annualised run rate. More importantly, AWS operating income rose to \$16.6 billion from \$10.2 billion, lifting the segment margin to 39.3% from approximately 33.1%. A cloud business simultaneously accelerating its growth rate and expanding its margin by six percentage points is the single most valuable disclosure Amazon could have made.

The earnings call added the figure that matters most for the next three years: AWS now carries a **\$496 billion backlog** of contracted, not-yet-recognised revenue. Management said AI and core cloud workloads are reinforcing one another rather than cannibalising, and went as far as saying AWS could eventually become a \$1 trillion annual-revenue business. A backlog approaching half a trillion dollars is the reason the 36.7% growth rate should be read as a floor for the near term rather than a peak.

Group operating income, which excludes the Anthropic gain entirely, rose 43% to \$27.5 billion on 20% revenue growth. Advertising grew 26%. The AI business and the custom chips business each exceeded a \$25 billion annualised run rate, both growing at triple-digit rates. That is the quarter the market bought, and it was right to.

Q2 FY2026 reported results

Measure	Q2 FY26	Q2 FY25	Change	Note
Net sales	\$200.6bn	\$167.7bn	+20%	Beat (\$196.5bn est.)
North America	\$116.2bn	\$100.2bn	+16%	—
International	\$42.2bn	\$36.7bn	+15%	—
AWS	\$42.2bn	\$30.8bn	+37%	Fastest in 18 quarters
Operating income	\$27.5bn	\$19.2bn	+43%	Excludes the Anthropic gain

Measure	Q2 FY26	Q2 FY25	Change	Note
North America	\$9.1bn	\$7.5bn	+21%	—
International	\$1.7bn	\$1.5bn	+13%	—
AWS	\$16.6bn	\$10.2bn	+63%	Margin 39.3% vs ~33.1%
Net income	\$62.6bn	\$18.2bn	+244%	Includes \$53.4bn pre-tax other income
Diluted EPS	\$5.75	\$1.68	+242%	Includes the Anthropic gain
EPS excluding Anthropic gain	~\$1.95	—	—	Versus ~\$1.82 expected
Advertising revenue	—	—	+26%	—
Operating cash flow (TTM)	\$161.4bn	\$121.1bn	+33%	—
Free cash flow (TTM)	-\$7.6bn	+\$18.2bn	outflow	Capex up \$66.1bn year over year

Source: Amazon.com, Inc. Q2 2026 results release (aboutamazon.com / ir.aboutamazon.com), 30 July 2026. Prior-year segment revenues are derived from the disclosed growth rates and are approximate. The clean EPS figure is calculated by this analysis from the disclosed \$53.4bn pre-tax other income at the quarter's 22.6% effective tax rate; it is not a company-reported measure.

Third Quarter Guidance

Measure	Q3 2026 guidance	Comparison
Net sales	\$197.0 - 202.0bn	+9% to +12%; below the ~\$204.1bn consensus
adjusted for Prime Day timing	nearly 400bp higher	The key qualifier
Operating income	\$22.5 - 26.5bn	Against \$17.4bn in Q3 2025: +29% to +52%
Foreign exchange	~80bp unfavourable	—
FY2026 cash capital expenditure	~\$220bn	Raised from ~\$200bn, chiefly on higher memory costs
Advertising revenue (Q2)	\$19.8bn	+26%

The revenue guidance came in below the roughly \$204 billion consensus and was widely reported as a miss. The company stated in the same release that excluding the impact of Prime Day in both 2025 and 2026, third-quarter year-over-year growth would be nearly 400 basis points higher. Prime Day timing is a calendar artefact, not a demand signal, and adjusting for it places the guided growth rate close to the second quarter's. The apparent guidance miss is largely mechanical.

The operating income guidance received far less attention and matters more. Guiding to \$22.5-26.5 billion against \$17.4 billion a year earlier implies growth of 29% to 52% at a time when the company is spending approximately \$220 billion on capital expenditure for the year. That is the profile of a business whose investment is converting into profit inside the same fiscal year, which is precisely what several of its peers cannot yet claim.

One risk factor in the release is worth flagging because it recurs across this reporting season. Amazon explicitly cited “resource and supply volatility, including for memory chips” among the factors that could materially affect results. The same constraint appeared in Apple's guidance commentary. A component shortage that touches both the largest consumer hardware company and the largest cloud provider is a sector condition rather than a company-specific issue.

AWS and the Return on Capital Question

The defining question across every large technology company reporting this season is whether extraordinary capital expenditure is generating a return. Amazon's answer is the clearest of any, and it is the reason this report treats the quarter as materially better than the headline distortion suggests.

AWS grew 37% and expanded its operating margin to 39.3% from roughly 33.1%. Growth accelerating while margin expands is the signature of pricing power meeting operating leverage, and it is very difficult to fake. Underneath it, the AI business and the custom silicon business each passed \$25 billion of annualised revenue, both growing at triple-digit rates. Amazon's own chips are central to this: Trainium has secured multi-year, multi-gigawatt commitments from both Anthropic and OpenAI, and Graviton5 reached general availability with the company noting that Graviton is used by 98% of the top 1,000 EC2 customers, that revenue commitments increased nearly threefold quarter over quarter, and that Graviton5 is ramping roughly twice as fast as Graviton4 did.

The \$496 billion AWS backlog is what converts this from a one-quarter observation into a multi-year one. Contracted revenue of that size, against a \$169 billion annualised run rate, is close to three years of current revenue already committed, and it is the strongest available answer to the question of whether the capital being deployed has demand waiting for it.

Designing the silicon rather than only buying it is the structural difference. It converts a portion of what would be capital expenditure paid to a third-party supplier into an internal cost, and it is the most credible explanation for how AWS expanded margin by six points while growing 37%.

The offsetting fact must be stated with equal force, and management stated it themselves. Trailing twelve-month free cash flow is an outflow of \$7.6 billion, against an inflow of \$18.2 billion a year earlier, a swing driven by a \$66.1 billion year-over-year increase in property and equipment purchases. On the call, management said explicitly that it expects near-term free-cash-flow pressure as data centres are built ahead of monetisation, while forecasting attractive long-term returns. It also raised the 2026 cash capital expenditure outlook to approximately \$220 billion from \$200 billion, and attributed the increase chiefly to higher memory costs rather than to additional capacity. That is the same memory-cost pressure AMD cited for a softer PC market and Apple cited behind its guided deceleration, and it means a meaningful part of Amazon's capex increase buys no incremental compute at all.

Risks

Risk	Probability	Severity	Comment
Negative free cash flow	High	Medium	-\$7.6bn trailing twelve months on ~\$220bn of guided annual capex. Visible AWS returns mitigate but do not remove this.
Earnings quality	High	Low	The Anthropic gain is non-cash, non-operating and reversible. It will flatter comparatives for a year and then reverse them.
Memory chip supply	Medium	Medium	Explicitly cited by the company. The same constraint appears in Apple's guidance, indicating a sector-wide condition.
Price already moved	High	Medium	+17.8% in three sessions leaves roughly 8.5% to probability-weighted fair value
AI demand digestion	Medium	High	AWS acceleration assumes enterprise AI spending continues at the current pace
AWS leadership change	Low	Low	Dave Brown departing as head of Compute and ML Services, with Dave Treadwell succeeding

Risk	Probability	Severity	Comment
Regulatory	Medium	Medium	Antitrust exposure across retail marketplace and cloud in several jurisdictions

Valuation

With roughly 10.89 billion diluted shares, Amazon carries a market capitalisation near \$3.02 trillion at \$277.42. Annualising the clean quarterly result of approximately \$1.95 gives \$7.80 and a multiple near 35.5 times. That figure overstates the true multiple somewhat, because the fourth quarter is seasonally Amazon's strongest, but it is the honest starting point and it is not cheap.

The multiple is better understood through the segments than in aggregate. AWS at a \$169 billion run rate growing 37% with a 39.3% operating margin generated \$16.6 billion of quarterly operating income, an annualised \$66 billion. On the multiples applied to comparable cloud franchises, that segment alone accounts for a very substantial share of the current market capitalisation, leaving the retail and advertising businesses valued modestly. Advertising growing 26% is, on its own, one of the larger and faster-growing advertising businesses in existence.

What the price does not offer is a margin of safety. Following a 17.8% move in three sessions, the shares sit 12.1% above their fifty-day average with a relative strength index of 67.0, and the probability-weighted fair value of \$301 implies roughly 8.5% of upside. The business case strengthened materially this quarter. The investment case strengthened considerably less, because the market repriced it within seventy-two hours.

Metric	Value	Assessment
Price (4 Aug 2026 close)	\$277.42	Up 17.8% since the release
Market capitalisation	~\$3.02tn	~10.89bn diluted shares
P/E on annualised clean Q2 EPS	~35.5x	Overstated by Q2 seasonality, but not cheap
AWS annualised run rate	\$169bn	Growing 37% at a 39.3% operating margin
AWS annualised operating income	~\$66bn	Up from ~\$41bn a year earlier
Operating cash flow (TTM)	\$161.4bn	+33%
Free cash flow (TTM)	-\$7.6bn	Fully consumed by the AI build
Probability-weighted fair value	\$301	Approximately 8.5% above the current price

Technical Position

Indicator (as of 4 Aug 2026)	Value	Reading
Close	\$277.42	Above every computable moving average
SMA20	\$247.42	Price 12.1% above
SMA50	\$247.19	Price 12.2% above
SMA100	\$243.99	Price 13.7% above
SMA200	not computed	Insufficient history in the 100-session series; not estimated
RSI(14)	67.0	Approaching overbought, not yet extreme
MACD / signal / histogram	+4.81 / +0.23 / +4.58	Strong bullish crossover
ATR(14)	\$9.82	3.5% of price

Indicator (as of 4 Aug 2026)	Value	Reading
100-session range	\$199.14 - \$287.20	Price near the top of the range

Indicators computed from 100 daily OHLCV sessions (12 Mar - 4 Aug 2026). The 200-day average could not be derived from that window and has deliberately not been estimated.

Scorecard

Category		Score	Comment
Business quality		9/10	Three strong franchises: AWS, retail and a 26%-growth advertising business
Financial strength		7/10	\$161.4bn of operating cash flow, entirely consumed; free cash flow negative (was 8)
Competitive advantage		9/10	AWS scale plus custom silicon in Trainium and Graviton
Management		8/10	AWS reacceleration is a genuine achievement; the headline EPS presentation relies on a mark-to-market gain
Growth potential		9/10	AWS +37% and accelerating; AI and chips each above \$25bn with triple-digit growth (was 8)
Valuation		5/10	~35.5x annualised clean earnings after a 17.8% three-session move
Risk (higher = safer)		6/10	~\$220bn of capex, negative free cash flow, memory chip supply flagged
Technical setup		7/10	Strong breakout on heavy volume, but 12% above the 50-day average

Overall Investment Score: 75/100

Weightings: growth 16, valuation 16, business quality 15, competitive advantage 13, risk 13, financial strength 11, management 11, technicals 5. Growth moved up on the AWS acceleration; financial strength moved down on free cash flow.

Recommendation: Watchlist (reaffirmed), with the bar for an upgrade now defined

The rating is reaffirmed at Watchlist, and the reasoning has changed enough that the reaffirmation should not be mistaken for indifference. This was the strongest operational quarter Amazon has reported in several years, and it moved the business meaningfully closer to a Buy rating without quite arriving there.

What improved is specific. AWS accelerated to 37% while expanding its operating margin to 39.3% from roughly 33.1%, which is the clearest evidence available anywhere in this reporting season that large-scale artificial intelligence capital expenditure is generating a return inside the same fiscal year. Group operating income grew 43%, and the third quarter is guided to 29-52% operating income growth. Advertising grew 26%. The custom silicon programme has secured multi-gigawatt commitments from the two leading AI laboratories. None of this depends on the Anthropic revaluation, which is why the rally was justified even though the headline earnings figure was not meaningful.

What holds the rating back is the price and the cash. The shares rose 17.8% in three sessions and now trade near 35.5 times annualised clean earnings, 12% above their fifty-day average, leaving roughly 8.5% of upside to a probability-weighted fair value of \$301. Trailing free cash flow is an outflow of \$7.6 billion, and full-year capital expenditure is guided to approximately \$220 billion. An investor initiating here is paying a full multiple to fund a build-out, on the strength of one quarter of margin expansion.

The bar for an upgrade is now explicit. A second consecutive quarter of AWS growth at or above 35% with the margin holding near 39% would confirm that this quarter was a trend rather than a step, and would justify a Buy at a higher

price than today's. Alternatively, a retreat toward the \$245-250 area, where the twenty- and fifty-day averages converge and where the shares traded before the release, would provide the margin of safety the current price lacks. A downgrade would require AWS growth falling back below 30% or free cash flow deteriorating further without a corresponding margin gain.

Scenario analysis

Scenario	Prob.	Earnings path	Fair value	Conditions
Bull	30%	FY27 clean EPS ~\$11.00	\$374	AWS sustains 35%+ with margin near 40%, advertising compounds, free cash flow turns positive; multiple ~34x
Base	45%	FY27 clean EPS ~\$9.50	\$304	AWS moderates toward 30%, operating leverage continues, capex plateaus; multiple ~32x
Bear	25%	FY27 clean EPS ~\$8.00	\$208	Enterprise AI digestion, memory chip costs compress margin, capex remains elevated; multiple ~26x

Probabilities sum to 100%. Probability-weighted fair value: \$301, approximately 8.5% above the 4 August close of \$277.42. Earnings figures exclude non-operating investment gains.

Final Verdict

Amazon reported a headline that was almost entirely an accounting event and a quarter underneath it that was genuinely excellent, and the market managed to look past the first and price the second within a single session.

The \$5.75 of earnings per share should be set aside. Excluding the \$53.4 billion pre-tax gain on the Anthropic stake, the company earned approximately \$1.95 against \$1.82 expected, a normal beat. That gain is non-cash, non-operating and reversible, and it will flatter year-over-year comparisons for four quarters before doing the opposite.

What deserves attention is that AWS grew 37%, its fastest in eighteen quarters, while lifting its operating margin to 39.3% from around 33.1%, and that group operating income rose 43% with third-quarter guidance implying 29-52% further growth. In a season where every large technology company is being asked whether its capital expenditure earns a return, Amazon produced the most direct affirmative answer available: the segment absorbing the spending is accelerating and getting more profitable at the same time, helped materially by owning its own silicon.

The reason this is not yet a Buy is arithmetic rather than doubt. Seventeen point eight per cent of the good news was taken by the market in three sessions, free cash flow is negative \$7.6 billion against roughly \$220 billion of planned capital expenditure, and roughly 8.5% of upside remains to a fair value that already assumes the AWS trajectory holds. This is an excellent business at a full price, one confirming quarter or one ordinary pullback away from being an easy decision.

Sources

Amazon.com, Inc. Q2 2026 earnings call transcript, 30 July 2026, via MarketBeat (provided by Quartr) • Amazon.com, Inc. — Q2 2026 results release, aboutamazon.com and ir.aboutamazon.com (30 Jul 2026) • Alpha Vantage — daily OHLCV series, 12 Mar to 4 Aug 2026 • CNBC and Yahoo Finance — Q2 2026 results coverage and consensus estimates

This document is produced for informational and educational purposes only. It is not financial advice, not a recommendation to buy or sell any security, and does not take account of any individual's circumstances or objectives. Figures are drawn from the sources listed above as at 5 August 2026 and may subsequently change. The earnings call transcript was obtained and reviewed via MarketBeat. The clean earnings per share figure is calculated by this analysis from disclosed figures and is not a company-reported measure. This report supersedes an earlier version issued on 5 August 2026 that was prepared without the earnings call transcript and therefore omitted the \$496bn AWS backlog and the memory-cost driver behind the raised capital expenditure outlook.