AMZN

AWS is accelerating, but capex has turned free cash flow negative.

AWS grew 37% in Q2 2026 on a $496B backlog, while gross trailing capex of $173.0B ($169.0B net of proceeds) exceeded operating cash flow of $161.4B. Q2 net income of $62.6B includes $53.4B of mostly Anthropic investment gains.

-$7.6B

Trailing-twelve-month free cash flow to 30 Jun 2026, as reported by Amazon (versus +$18.2B a year earlier). Source: Q2 2026 release.

Watchlist: the operating engine is strong; the open test is whether AWS growth and margin earn a return on the capex build.

Core question
Can AWS growth and margin earn a return on $173.0B of gross trailing capex ($169.0B net)?

Revenue
Q2 net sales $200.6B, +20%; AWS $42.2B, +37%; advertising +26%.

Margin
Operating income $27.5B, 13.7% margin (calculated); AWS margin 39.4% (calculated).

Cash
TTM operating cash flow $161.4B vs gross PP&E purchases $173.0B ($169.0B net); long-term debt raised $81.9B.

Risk
$53.4B of Q2 net income is non-operating, mostly Anthropic marks; marks can reverse.

Street
Published analyst targets span $230 to $405, average $331.46, 30.1% above the Oct 15 close of $254.76.

PRICE	MARKET CAP	PRICE AS OF	REPORT DATE
$254.76	$2.75T	15 Oct 2026	16 Oct 2026
as of 15 Oct 2026	as of 15 Oct 2026		

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SUMMARY

Operating strength is real; reported profit is flattered by investment gains.

Operating income is the cleaner profit measure. The capex build is funded partly by debt and has pushed trailing free cash flow below zero.

+37%
Q2 2026 AWS sales growth to $42.2B, fastest in 18 quarters (company). Source: Q2 2026 release.

$496B
Unrecognised AWS-related contract commitments at 30 Jun 2026, 6.4-year weighted-average life. Source: 10-Q.

13.7%
Q2 operating margin: $27.461B on $200.606B net sales. CALCULATED

What supports the view

- AWS operating income $16.6B vs $10.2B a year ago; AWS margin 39.4% (calculated).
- Backlog of about $496B includes $100B-plus expansions with OpenAI and Anthropic (10-Q).
- North America +16%, International +15%, advertising +26% to $19.8B.
- Q3 guide: operating income $22.5B to $26.5B vs $17.4B a year ago; midpoint +41% (calculated).

What could undercut it

- TTM free cash flow -$7.6B (operating cash flow less net capex); consensus FY26 free cash flow is -$33.9B (S and P).
- $53.4B of Q2 non-operating income, primarily Anthropic; the 10-Q attributes $50.5B to upward adjustments on private investments.
- Interest expense $1.314B vs $0.516B (+155%, calculated); depreciation and amortisation +31% y/y (calculated).
- About $640M of tariff refunds helped Q2 North America cost of sales and will not repeat.
- Backlog is concentrated in AI labs that are also investees; customer split is not disclosed.

What decides it: AWS growth and margin against rising capex, with the next read on 29 October after the close.

Key figures

METRIC	PERIOD	VALUE	SOURCE
Net sales	Q2 2026	**$200.606B**	Q2 2026 release
Operating income	Q2 2026	**$27.461B**	Q2 2026 release
AWS operating margin	Q2 2026	**39.4%** CALCULATED	Calculated: $16,621M divided by $42,232M

TTM gross purchases of property and equipment (net: $169.0B)to 30 Jun 2026**$173.0B**Q2 2026 releaseTTM free cash flowto 30 Jun 2026**-$7.6B**Q2 2026 releaseTTM operating incomeQ3 25 to Q2 26**$93.712B** CALCULATEDCalculated: sum of four quarters

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METRIC	PERIOD	VALUE	SOURCE
AWS share of TTM operating income	Q3 25 to Q2 26	**58%** CALCULATED	Calculated: $54.7B divided by $93.7B

What to watch

29 OCT 2026

Q3 2026 results

Guide: net sales $197B to $202B (+9% to +12%), operating income $22.5B to $26.5B.

29 OCT 2026

Q4 bar

Consensus implies Q4 revenue near $246.9B and operating income near $34.3B (calculated).

UNDATED

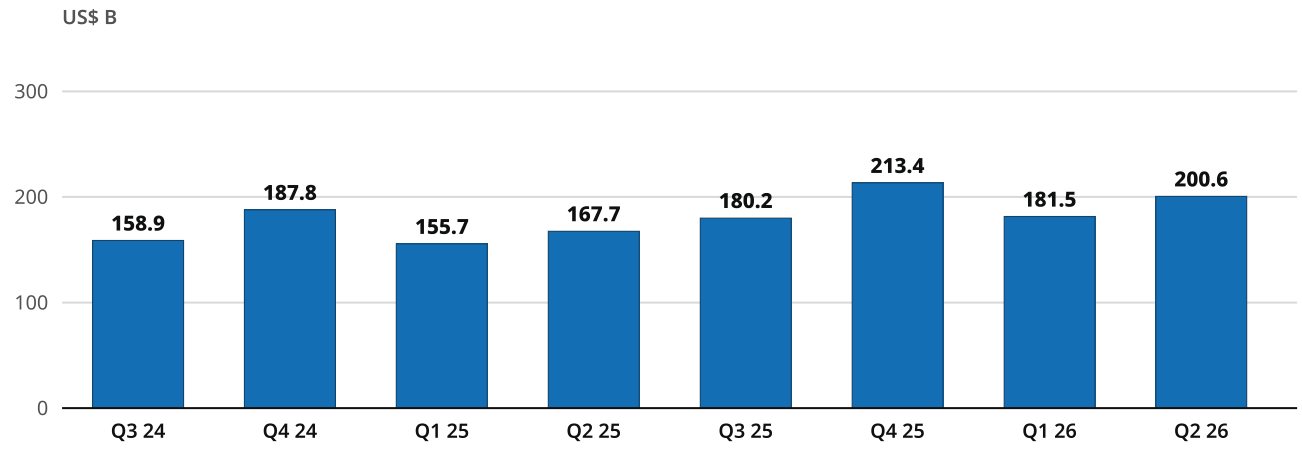
Capex guidance and AWS events

No 2026 capex figure in the release; AWS event dates not sourced.

EVIDENCE 1 · REVENUE AND MARGINS

Net sales growth accelerated to 20% and operating margin reached 13.7%.

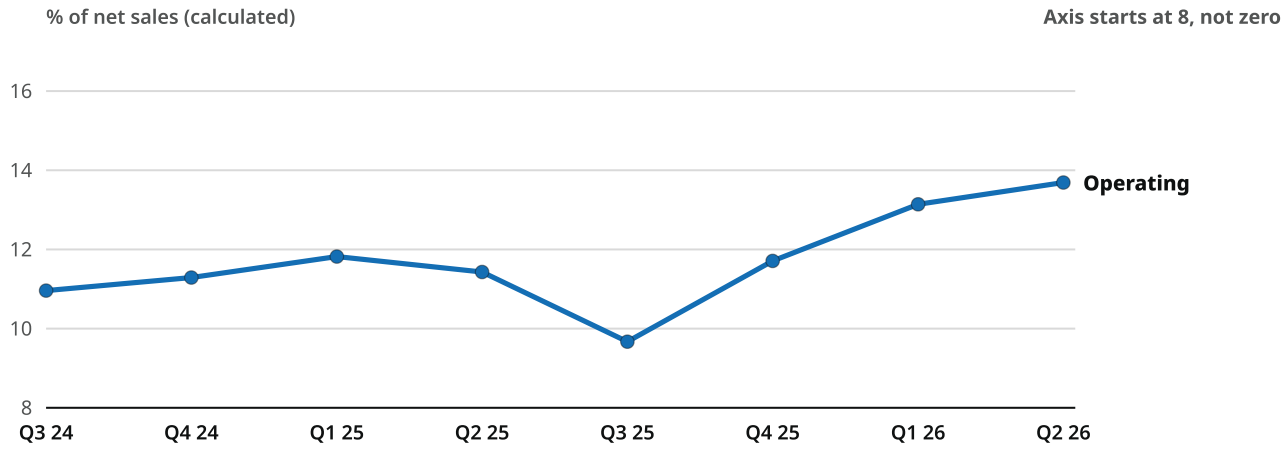
Q2 net sales reached $200.6B, up 20% on the year



Net sales as reported. Q3 2024 to Q1 2026 from the Flip sheet, tab AMZN; Q2 2026 tied to the release.
Source: Amazon Q2 2026 release and 10-Q; Flip sheet tab AMZN.

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Operating margin has risen from 9.7% to 13.7% in four quarters



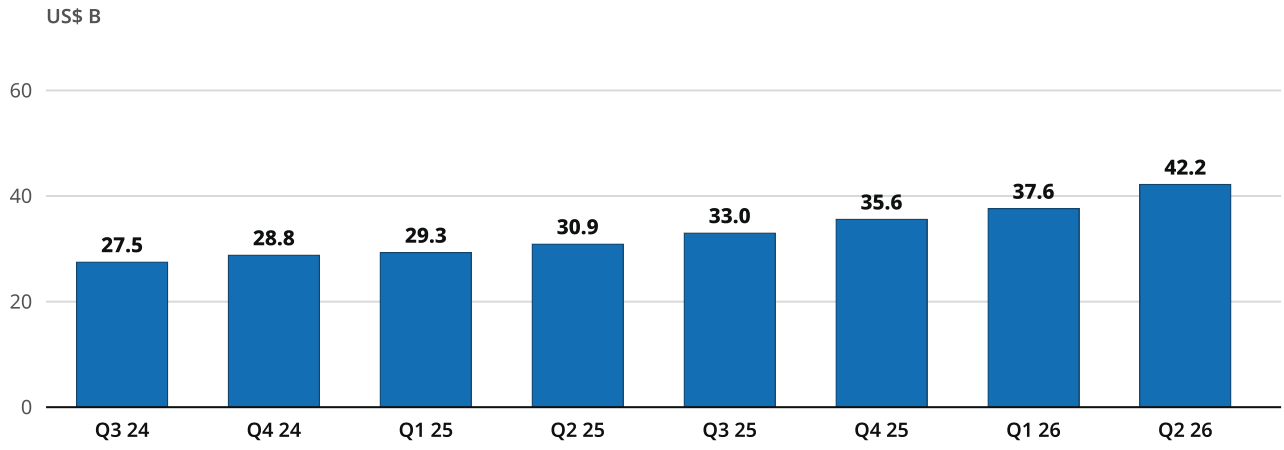
Calculated: operating income divided by net sales. Q3 2025 includes $2.9B of other operating expense (cause not verified). Axis starts at 8, not zero.
Source: Amazon filings; Flip sheet tab AMZN; margins calculated.

Q2 2026 North America operating margin was 7.8% and International 4.1% (calculated). Cost of sales included about $640M of IEEPA tariff refunds, primarily North America (10-Q); excluding the full amount, North America would be near 7.3% (calculated).

EVIDENCE 2 · AWS

AWS revenue grew 37% and its margin rose to 39.4%.

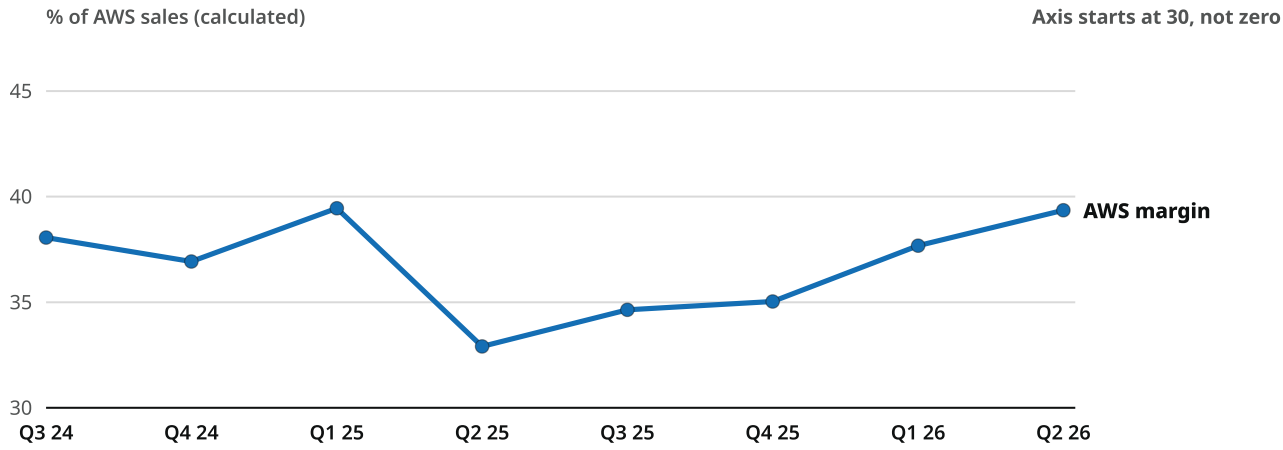
AWS sales reached $42.2B in Q2, up 37%



AWS growth y/y: 20.2% (Q3 25), 23.6%, 28.4%, 36.8% (calculated in the tab).
Source: Amazon filings; Flip sheet tab AMZN.

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AWS operating margin returned to 39.4% from 32.9% a year ago



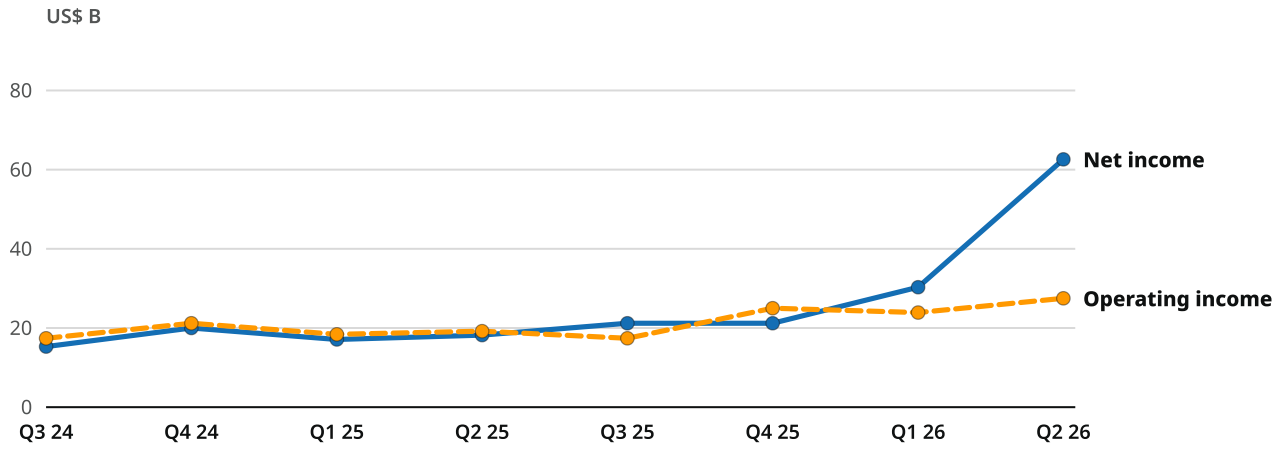
Calculated: AWS segment operating income divided by AWS net sales. Axis starts at 30, not zero.
Source: Amazon Q2 2026 release; Flip sheet tab AMZN.

Unrecognised commitments were about $496B at 30 June with a 6.4-year weighted-average life (10-Q). The 10-Q cites a $100B-plus, eight-year expansion with OpenAI (Q1) and a $100B-plus, ten-year expansion with Anthropic (Q2). Prior-quarter backlog was not captured, so backlog growth cannot be stated.

EVIDENCE 3 · EARNINGS QUALITY AND CASH

Net income of $62.6B is more than twice operating income of $27.5B.

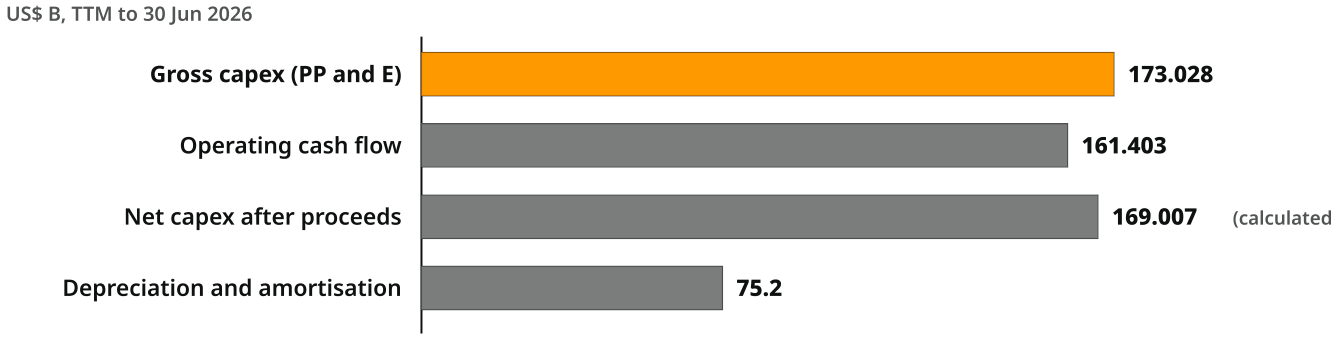
Net income diverged from operating income in Q2 on investment gains



Q2 2026 non-operating income was $53.4B, primarily Anthropic; Q1 2026 was $16.0B (tab).
Source: Amazon Q2 2026 release and 10-Q; Flip sheet tab AMZN.

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Capex exceeded operating cash flow over the last twelve months



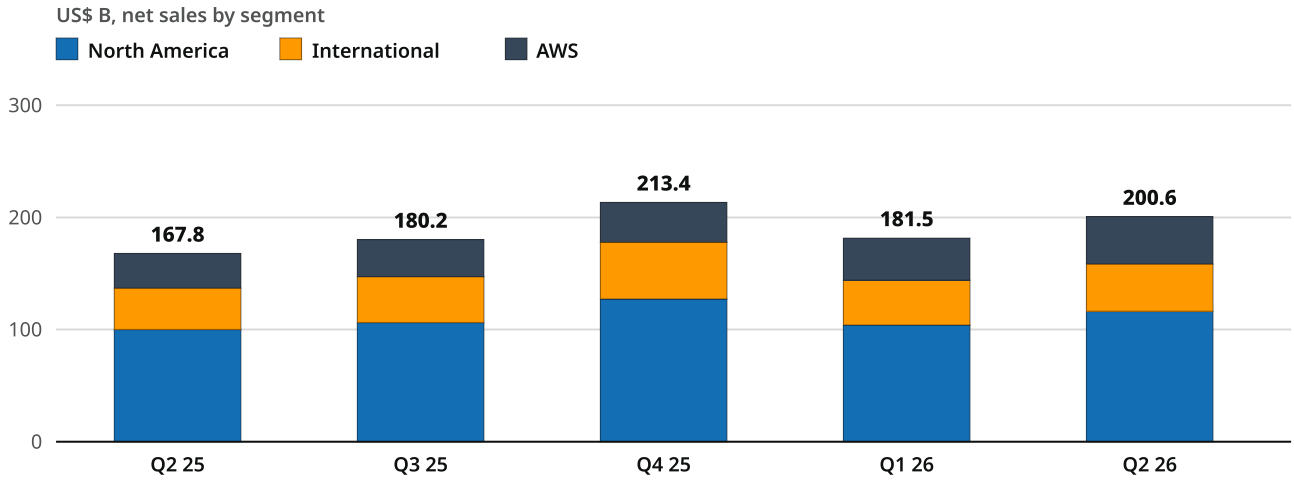
Net capex calculated: $173.028B less $4.021B proceeds = $169.0B. Amazon's free cash flow of -$7.6B uses net capex ($161.4B less $169.0B).
Source: Amazon Q2 2026 release, cash-flow statement.

TTM long-term debt proceeds were $81.9B and net financing inflow $75.2B (reported). The 10-Q expects capex to rise further in 2026; the release gives no capex number.

EVIDENCE 4 · SEGMENTS

AWS is 21% of Q2 sales but 58% of trailing operating income.

AWS added $11.4B of sales y/y; North America added $16.1B



As reported by segment.
Source: Amazon Q2 2026 release; Flip sheet tab AMZN.

Q2 2026 SEGMENT	SALES	OPERATING INCOME	MARGIN
North America	**$116.2B**	$9.1B	7.8% CALCULATED
International	**$42.2B**	$1.7B	4.1% CALCULATED
AWS	**$42.2B**	$16.6B	39.4% CALCULATED

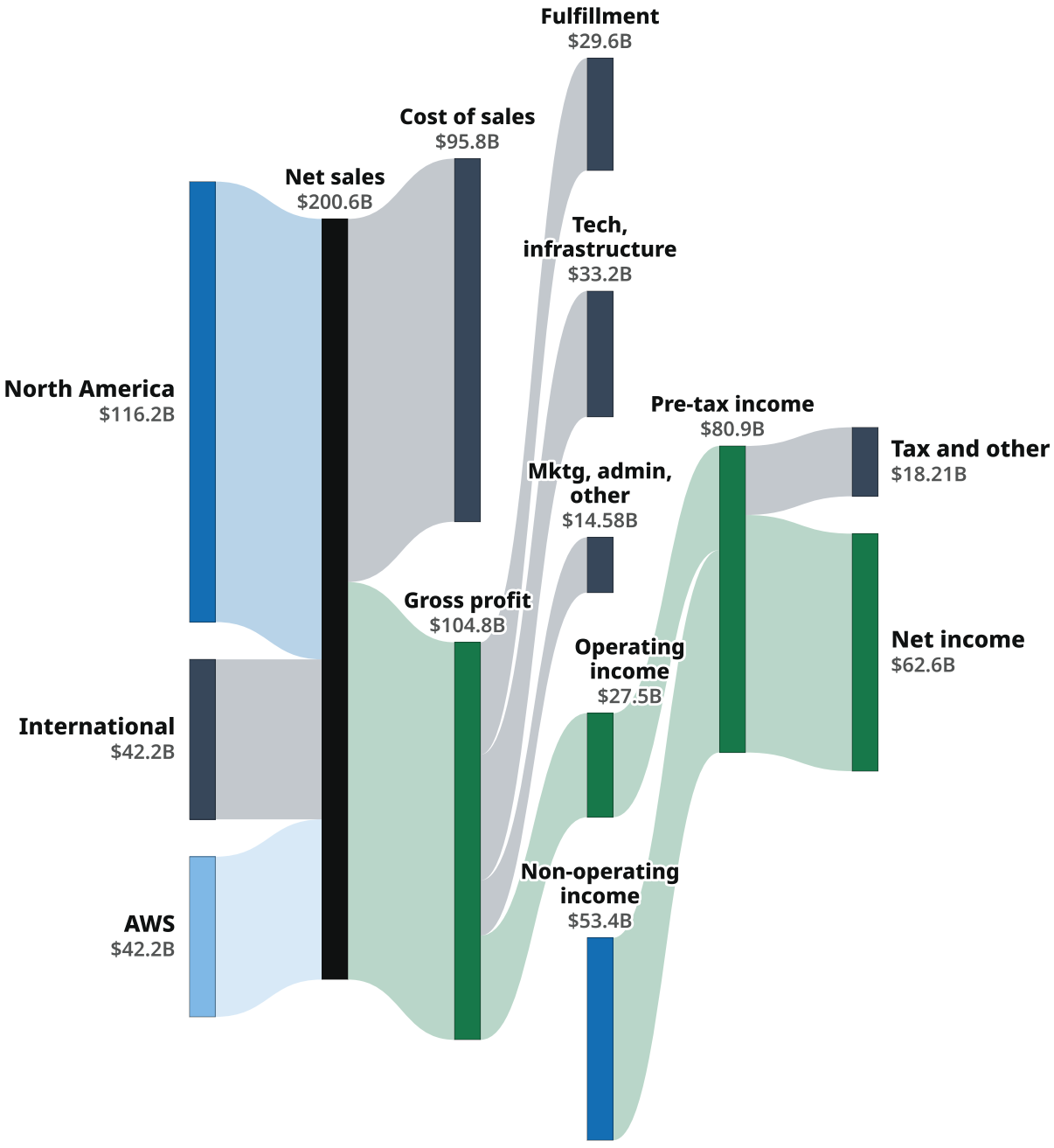
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INCOME STATEMENT FLOW

Where each dollar of Q2 sales went: 13.7% became operating income.

Q2 2026 income statement

US$ B · quarter ended 30 Jun 2026 · GAAP



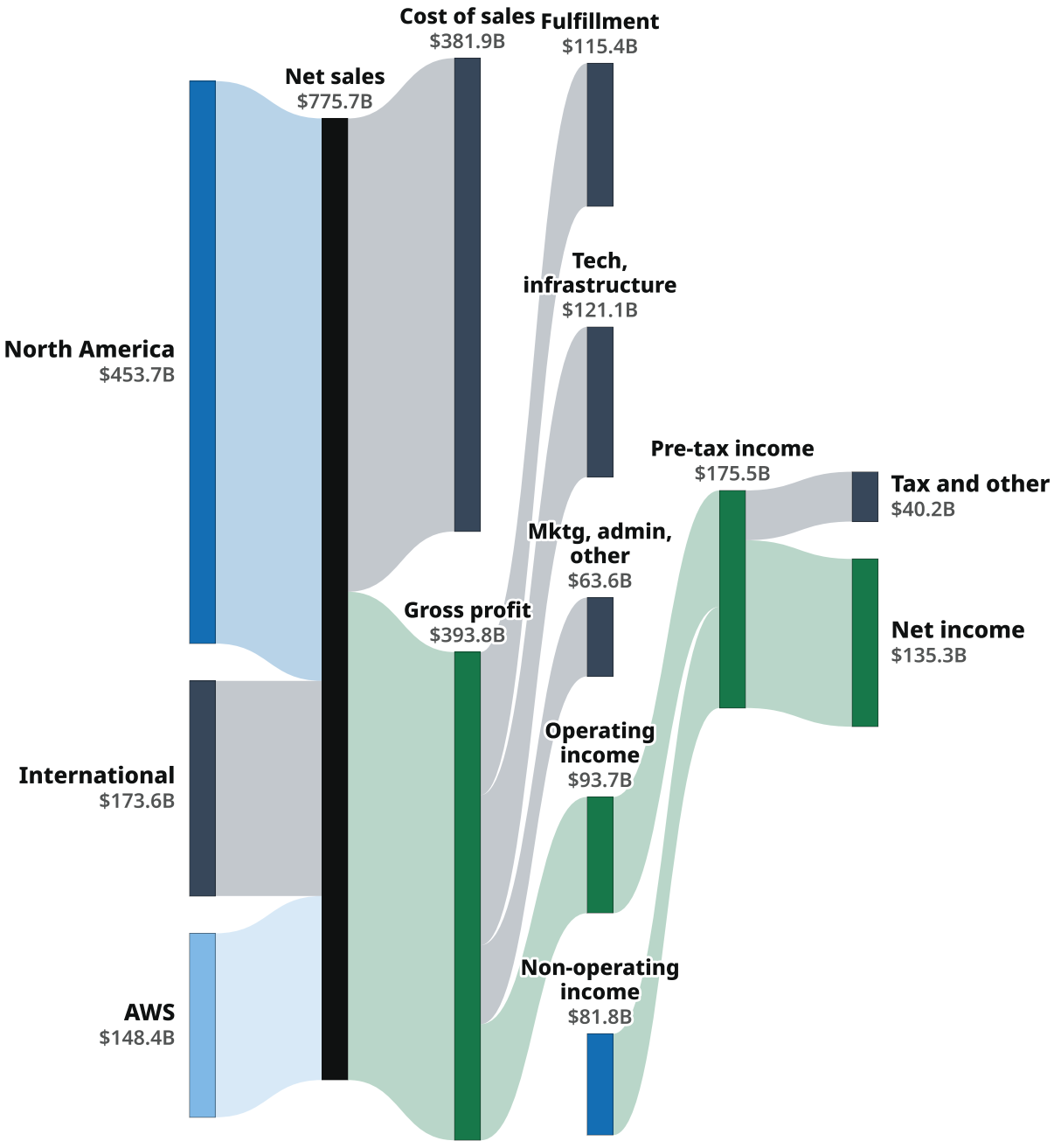
Source: Amazon Q2 2026 release (8-K). Grouped lines calculated; see method.
Chart: desk analysis

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Over four quarters, 12.1% of $775.7B of sales became operating income.

TTM income statement, Q3 2025 to Q2 2026

US$ B · trailing twelve months to 30 Jun 2026 · GAAP · calculated



Source: Amazon filings (SEC) and Flip sheet tab AMZN; sum of four quarters, calculated. Same groupings as the quarterly chart.
Chart: desk analysis

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RISKS

Five exposures matter most, set against real strengths.

Return on capex

TTM free cash flow -$7.6B; consensus FY26 free cash flow -$33.9B (S and P); capex expected to rise.

Earnings quality

$53.4B of Q2 non-operating income, mostly Anthropic marks; Q2 also shows $42.0B of unrealised gains in other comprehensive income.

Backlog concentration

The $496B backlog includes $100B-plus expansions with OpenAI and Anthropic (per 10-Q, not re-read); Amazon also holds Anthropic equity. Customer split not disclosed.

Leverage and interest

Debt raised $81.9B in twelve months; interest expense +155% y/y (calculated); S and P net cash -$128.7B.

Supply and input costs

Guidance language lists memory-chip supply, energy prices and tariffs.

Offsetting strengths

AWS +37% with a 39% margin, advertising +26% and $161B of trailing operating cash flow.

VALUATION INPUTS

At 27x forward earnings the multiple assumes capex converts into growth.

METRIC	BASIS	VALUE	SOURCE
Market capitalisation	Oct 15, 2026 close	**$2.75T**	S and P Global MI via stockanalysis.com
Enterprise value	Oct 15, 2026	**$2.88T**	S and P Global MI
Trailing P/E	TTM, includes gains	**20.5x**	S and P Global MI

Forward P/ES and P**27.1x**S and P Global MIP/E on FY26 consensus EPS $8.31Non-GAAP**30.7x** CALCULATEDCalculated: price $254.76 divided by $8.31P/E on FY27 consensus EPS $10.45Non-GAAP**24.4x** CALCULATEDCalculated: price divided by $10.45EV/EBITTTM**30.6x**S and P Global MIPrice / operating cash flowTTM**17.0x**S and P Global MI

Consensus (S and P, Oct 15): FY26 revenue $828.6B, +15.6%; operating income $110.1B; EPS $8.31 (excludes investment gains); FCF -$33.9B; FY27 revenue $949.3B, EPS $10.45. Implied Q4 2026: revenue near $246.9B (+15.7%) and operating income near $34.3B (+37%), both calculated from H1 reported, the Q3 guide midpoint and FY26 consensus.

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VALUATION

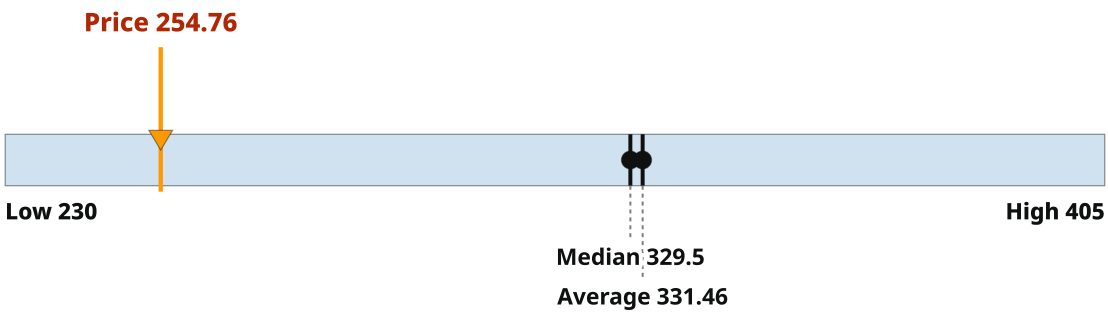
The published Street range runs from $230 to $405 against a $254.76 price.

Only the third-party analyst range is sourced; the Desk has no scenario model. This is not a Desk target.

CASE	STREET TARGET	VERSUS CLOSE	SOURCE
Street low	**$230**	-9.7%	S and P Global MI, 60 analysts
Street average	**$331.46**	+30.1%	S and P Global MI
Street high	**$405**	+59.0%	S and P Global MI

The price sits near the bottom of the published range

US$ per share



Third-party analyst targets as polled by S and P Global; not a Desk view.
Source: stockanalysis.com forecast page, 15 Oct 2026.

CATALYSTS

One dated event: Q3 results on 29 October.

29 OCT 2026 · KEY DATE

Q3 2026 results (after close)

Guide: net sales $197B to $202B, operating income $22.5B to $26.5B. Watch AWS growth and margin, capex, backlog and the Q4 guide.

Q3 2026

Anthropic mark-to-market

Not guided; the guide assumes no energy-derivative remeasurement.

UNDATED

Capex guidance and AWS events

No capex number in the release; event dates not sourced.

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METHOD AND DATA QUALITY

How the numbers were checked

Tags: OK confirmed against the source, FIX corrected, PART partly supported, UNV not verified.

CLAIM	RESULT	NOTE
Q2 2026 income statement, segment sales and segment operating income	OK	All lines match the release and 10-Q; Q1 2026 equals H1 less Q2.
Sankey grouped lines: marketing $11.698B plus general and administrative $2.788B plus other operating $0.090B = $14.576B; tax $18.199B plus equity-method $0.011B = $18.210B; non-operating income is the reported net total $53.396B	OK	14 nodes (cap 16), grouped; same groupings in the TTM chart; ties to reported subtotals; labelled calculated.
TTM net income, operating income and net sales	OK	Sums of four quarters match the release and S and P ($135.281B, $93.712B, $775.680B).
Flip tab AMZN diluted EPS row	FIX	Shows -7.56 in every column; not used.

Flip tab AMZN stock-based compensation row FIX Q3 2025 repeats Q2 2025 (6,534); 10-Q TTM implies Q3 plus Q4 2025 of $9.244B vs the tab's $10.931B; not used.$53.4B non-operating income OK 10-Q attributes $50.5B of Q2 upward adjustments primarily to Anthropic nonvoting preferred stock.Q3 2025 other operating expense of $2.875B UNV Cause not verified in this pass.Prime Day timing effect on Q2 and Q3 growth UNV Release says Q3 growth would be nearly 400 bps higher ex-Prime Day; quarter of 2026 Prime Day not stated in the text reviewed.AWS backlog growth PART Only the 30 Jun 2026 figure ($496B) captured; no prior-quarter comparison.Gross vs net capex OK Gross $173.0B; net of $4.0B proceeds $169.0B; FCF -$7.6B uses net (release table).Q3 guide, 18-quarter AWS growth, $81.9B debt raised OK Confirmed in the Q2 release text and cash flow statement.

Not sourced or not determinable

- 2026 capex guidance (not in the release).
- Backlog growth versus prior quarter, and customer split.
- Which quarter Prime Day fell in during 2026.
- Legal and regulatory exposures (sections not reviewed).

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SOURCES & DISCLOSURE

Principal sources

1. **Amazon Q2 2026 earnings release (8-K EX-99.1)**
   sec.gov/Archives/edgar/data/1018724/000101872426000024/amzn-20260730xex991.htm
2. **Amazon Q2 2026 release (8-K EX-99.1): Q3 guide, 18-quarter AWS growth, TTM cash flow and net capex**
   sec.gov/Archives/edgar/data/1018724/000101872426000024/amzn-20260630xex991.htm
3. **Amazon Form 10-Q, quarter ended 30 Jun 2026**
   sec.gov/Archives/edgar/data/1018724/000101872426000026/amzn-20260630.htm
4. **Valuation statistics, S and P Global MI via stockanalysis.com, 15 Oct 2026** (secondary)
   stockanalysis.com/stocks/amzn/statistics/
5. **Analyst targets and estimates, S and P Global MI / TipRanks via stockanalysis.com** (secondary)
   stockanalysis.com/stocks/amzn/forecast/
6. **Flip sheet, tab AMZN (read-only; Q3 2025 to Q1 2026 history)** (secondary)
   docs.google.com/spreadsheets/d/1m3h9Xce3SRMaq20li2Qg4HuSZowwxQSd9FkQmeuI7Dw (Flip sheet, read-only)

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