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## TECH

# Amazon Hits \$1 Trillion Valuation

It took online retailer just 165 trading days to grow from \$600 billion in January to \$1 trillion



One of the biggest beneficiaries of Amazon's rise is its 54-year-old creator and leader, Jeff Bezos, who has surpassed Bill Gates to become the richest man in the world. PHOTO: LINDSEY WASSON/REUTERS

By *Laura Stevens and Amrith Ramkumar*

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Amazon.com Inc. [AMZN -1.94%](#) ▼ followed Apple Inc. [AAPL -1.11%](#) ▼ to become the second U.S. company to reach \$1 trillion in market value, reflecting the online retailer's striking transformation from a profitless bookseller into a disruptive force of commerce.

Shares of Amazon climbed 1.9% in midday trading Tuesday, briefly topping the \$2,050.27 needed to push the company's value above \$1 trillion. The stock, which ended the day up 1.3%, has surged nearly 75% in 2018 and added roughly \$430 billion to the company's market capitalization—about the size of Walmart Inc., Costco Wholesale Corp. [COST -0.28%](#) ▼ and Target Corp. [TGT 0.06%](#) ▲ combined.

Investors have rewarded the Seattle-based company as it demonstrated better financial discipline in recent quarters, reporting record profits because of lucrative businesses such as cloud computing despite aggressively spending on industries from health care to grocery delivery.

“They’ve proven they can make it work,” said Michael Lippert, who manages the Baron Capital Opportunity Fund that counts Amazon as its largest holding. “They’re spending a lot on all these things to build and enforce their competitive advantages.”

Amazon and Apple, which hit the trillion-dollar milestone on Aug. 2, symbolize the growing influence of tech companies on markets and the economy. The industry is amassing wealth and power, creating a new order in business where the most valuable resource is no longer oil, but data. Not far behind in market value are Google owner Alphabet Inc. and Microsoft Corp., both approaching \$900 billion, while Facebook Inc.—which crossed \$500 billion in July 2017, a day after Amazon—has stalled at those levels amid a data-privacy scandal and growth concerns.

The companies' increasing cloud have prompted lawmakers to scrutinize the tech sector more closely. Amazon, which captures nearly half of all U.S. dollars spent online, is simultaneously drawing the ire of President Trump over its effect on traditional retail and its use of the U.S. Postal Service. Sen. Bernie Sanders has also criticized the company for the way it pays and treats its warehouse workers, something Amazon has said is an inaccurate portrayal.

Investors also worry about the tech companies' outsize impact on the stock market. Amazon, Apple and Microsoft have accounted for more than 35% of the S&P 500's total

return this year, according to S&P Dow Jones Indices data through Aug. 28.

One of the biggest beneficiaries of Amazon's growth is its 54-year-old leader, Jeff Bezos, who has surpassed Bill Gates to become the richest man in the world, according to multiple indices that track the world's wealthiest people. Mr. Bezos owned roughly 16% of Amazon, as of an August regulatory filing, and is worth about \$166 billion, according to the Bloomberg Billionaires Index.

Amazon has expanded rapidly since its humble founding as an online bookstore in Mr. Bezos's garage in 1994. The internet then was just becoming a viable platform, and the most valuable companies at the time included industrial conglomerate General Electric Co., oil giant Exxon Inc. and telecommunications power AT&T Inc.

Amazon was valued at less than \$500 million when it went public in 1997. A \$1,000 investment in the IPO would be worth roughly \$1.4 million today, adjusted for stock splits.

Tom Alberg, founding managing director for Madrona Venture Group, invested in Mr. Bezos's initial \$1 million round of funding in 1995 and has served on the board since the beginning. At the time, "I don't think that any of us saw that [the internet] or Amazon would become as significant as they've become," Mr. Alberg said. He preferred to buy his books in stores, and many believed consumers would balk at paying with a credit card online.

Mr. Bezos and Amazon have been successful by staying intensely focused on customers, working to retain top talent, innovating and taking big risks on projects—even if they fail, Mr. Alberg said. "People have asked me, 'What's Amazon's secret to success?'" he said. "There are no secrets."

Mr. Bezos has built his business by keeping prices low and expanding quickly. Opening the company's site to millions of small businesses, retailers and manufacturers accelerated growth, helping capturing sales from other retail chains. Last year, the company's online store sales topped \$108 billion, and the services it sold other merchants added to that total.

Amazon along the way has created popular electronic devices, produced award-winning films and shows, and built a cash cow by renting computer power on its servers to other companies. Amazon Web Services made more than \$17 billion in revenue last year and has become the company's biggest profit driver.

In recent months, Amazon has acquired grocery chain Whole Foods Market—giving it roughly 470 brick-and-mortar locations—and online pharmacy PillPack. It has enabled logistics drivers to deliver inside consumers' homes and cars, and is working on a delivery service expected to one day compete with FedEx Corp. and United Parcel Service Inc.

Amazon is also searching for a second headquarters, known as HQ2, where it is planning to create as many as 50,000 jobs and invest more than \$5 billion dollars over nearly two decades. The search, which launched a year ago, has been narrowed down to 20 finalists and a decision is expected in the coming weeks.

It took Amazon just 165 trading days to grow its market value from \$600 billion in January to \$1 trillion, pushing it past the more established Microsoft and Alphabet. By comparison, Apple needed 183 sessions to hit \$1 trillion after piercing \$900 billion in November.

Amazon is more expensive than many of its peers. It trades at about 90 times projected earnings for the next 12 months, compared with valuations of roughly 25 for Alphabet and Microsoft and 17 for Apple and the broader S&P 500. Part of the discrepancy is because Amazon's record second-quarter earnings of \$2.53 billion are still billions below the profits generated by Apple, Alphabet and Microsoft.

The higher market multiple is a reminder of how much investors have embraced Mr. Bezos' strategy of heavy spending in the past 20 years. Some analysts expect Amazon to soon overtake Apple as the largest U.S. company, which would mark the first such change since 2016, when Alphabet briefly passed the iPhone maker.

Mr. Bezos' initial shareholder letter in 1997—which he resends every year—touted the company's indifference to “short-term Wall Street reactions.” At all-hands meetings with employees, Mr. Bezos has quoted legendary investor Benjamin Graham: “In the short run, the market is a voting machine, but in the long run, it is a weighing machine.”

#### **Corrections & Amplifications**

Shares of Amazon crossed the \$2,050.27 needed to push the company's value above \$1 trillion in midday trading Tuesday. An earlier version of this article incorrectly stated that it happened Monday. (Sept. 4, 2018)

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