

Why We Own Amazon

The cloud is not weightless. It arrives in a community as a power line, a water plan, a construction site and a promise of jobs. Amazon's investment case now depends on whether AWS can turn that physical build-out into durable cash faster than it turns energy, water and trust into constraints.

This is why Amazon belongs in Climate Action for us. Not because every new data centre is automatically beneficial, nor because efficiency claims cancel absolute resource use. The energy and carbon performance of digital infrastructure is becoming a material economic variable. Amazon has the scale and engineering capability to improve it-and enough scale to make mistakes consequential.

Structural demand: AI becomes physical

Artificial intelligence has accelerated an already durable migration of computing into the cloud. The International Energy Agency estimates that data centres used about 415 terawatt-hours of electricity globally in 2024 and projects roughly 945 terawatt-hours by 2030 in its base case. The precise number will change. The direction, and the local concentration of demand, are harder to dispute.

That demand is not simply more internet traffic. Training advanced models requires large bursts of computing power; serving them to millions of users creates recurring inference demand. Businesses want access to that capability without owning every chip, network and software layer themselves. Cloud providers therefore sit at a critical junction between digital demand and physical infrastructure.

The constraint is increasingly local. Electricity generation, transmission, water availability, construction capacity and permitting can determine how quickly computing capacity comes online. The US Energy Information Administration expects data centres to drive renewed electricity-demand growth, while warning that the generation mix and consumer-price effects vary by region. In Texas, policy intervention has already caused the EIA to lower its 2027 load-growth forecast. Demand is real, but access to power is neither unlimited nor politically neutral.

Amazon's advantage: an integrated computing system

Amazon Web Services has three reinforcing advantages. First, it has a broad installed base and a deep catalogue of computing, storage, database, security and artificial-intelligence services. Customers can build and expand within one ecosystem rather than assemble every component themselves.

Second, Amazon increasingly designs the underlying hardware. Its Graviton processors target general computing workloads, while Trainium is designed for AI. If these chips deliver more useful computing for each unit of capital and electricity, they can improve customer economics and AWS margins at the same time. The company says its AI and chip businesses each now exceed a \$25 billion annual revenue run rate. That is encouraging, but independent evidence of customer returns and energy savings remains thinner than the adoption claims.

Third, Amazon can fund this build-out from a diversified group. Retail, marketplace services and advertising provide scale and customer touchpoints; AWS supplies the higher-margin growth engine. This gives Amazon more room to invest through a capacity cycle than a specialist provider might have.

These advantages are not permanent rights. Microsoft, Google and specialised AI infrastructure providers are investing aggressively. Customers may use more than one cloud, design their own chips or push for lower prices. The test is not whether Amazon can buy more servers. It is whether its software, hardware and service integration converts that investment into attractive incremental returns.

How advantage becomes earnings

Amazon's second-quarter 2026 results show the mechanism. Group revenue grew 20% to \$200.6 billion. AWS revenue rose 37% to \$42.2 billion and generated \$16.6 billion of operating income. AWS therefore contributed about three-fifths of group operating income despite representing roughly one-fifth of revenue.

The attraction is straightforward: as customers consume more computing, AWS earns usage revenue across infrastructure and higher-value services. Better utilisation spreads fixed costs. Custom chips may lower the cost of delivering each workload, while the breadth of the platform can increase the value of each customer relationship. At its best, this produces a flywheel of greater capability, more demand, improved unit economics and further investment.

But cash is the harder test. Amazon generated \$161.4 billion of operating cash flow over the trailing twelve months, yet reported a \$7.6 billion free-cash-flow outflow, driven primarily by investment in AI infrastructure. Its reported net income also included a large non-operating gain, mainly related to Anthropic; we do not treat that as evidence of core earning power.

This shifts the investment debate from whether AI demand exists to whether the capital deployed earns enough over its useful life. We need to see durable AWS growth, resilient operating margins and free cash flow recover as new capacity begins earning. Depreciation assumptions and the split between maintenance and growth investment matter. So does the risk of building too far ahead of demand.

A financially strong business, not just a good story

A compelling theme only matters if the company behind it can convert that opportunity into a genuinely well-run business, not just a bigger one. So before we get carried away with the AI story, we ask a simpler question: is this a profitable, disciplined company-and has that discipline shown up for shareholders? The operating answer is increasingly yes. The shareholder-return answer is more mixed, and we say so plainly below.

Profitability. Return on shareholders' equity-essentially, how much profit the business generates for every dollar shareholders have invested-has risen from 15.1% in 2023 to 20.7% in 2024 and 18.9% in 2025, a three-year average of around 18% and comfortably above the roughly 10% cost of equity we judge the business against. Operating margin has improved every year over the same period, from 6.4% to 10.8% to 11.2%, and the broader net margin has followed the same path, from 5.3% to 9.3% to 10.8%. AWS is doing much of the work: its own operating margin reached 39.4% in the second quarter of 2026, up from 32.9% a year earlier-evidence that

scale in cloud infrastructure is translating into genuine operating leverage, not simply more revenue.

Earnings growth. Reported earnings per share grew 90.6% in 2024 and 29.7% in 2025, comfortably outpacing revenue growth of 11.0% and 12.4% in the same years-in plain terms, the business has been getting more profitable as it grows, not just bigger. We treat the 2026 figures with more caution. Second-quarter net income was flattered by a \$53.4 billion non-operating, largely non-cash gain on Amazon's stake in Anthropic, which pushed reported earnings-per-share growth to 245% for the quarter alone. Stripped of that one-off item, underlying profit growth was still healthy-our own estimate puts adjusted earnings-per-share growth at around 16%, ahead of consensus-but nowhere near the headline number, and we do not treat the Anthropic gain as evidence of core earning power.

Shareholder returns-the case ahead. Here the historical record is weaker than the operating numbers suggest, and the house standard we apply-stating this plainly rather than dressing it up-means we say so directly. Amazon's shares fell nearly 50% in 2022 before rebounding strongly in 2023 and 2024 (+80.9% and +44.4% respectively); more recently, returns have cooled sharply, to +5.2% in 2025 and just +2.0% year-to-date in 2026, even as the underlying business kept compounding. Taken together, the five years since 2021 have compounded to a cumulative total return of only around 42%, or roughly 7% a year-a genuinely disappointing outcome for a period that included some of the company's best operating results, and one that falls well short of the standard we would want before treating a good business as, self-evidently, a good investment. The case ahead therefore rests on the market re-rating a still-improving business, not on repeating the historical pattern. Current estimates point to continued double-digit revenue growth and a return to mid-teens earnings-per-share growth through the end of the decade, once the distortion from the Anthropic gain rolls out of the year-on-year comparison, alongside a valuation that leaves room for the shares to re-rate as profits catch up with the price paid for them. If that combination of earnings growth and gradual re-rating plays out as currently expected, it would represent a considerably stronger outcome than the last five years have delivered-though this is a projection, not a settled outcome, and it depends on Amazon converting AI infrastructure investment into cash roughly on the timetable those estimates assume.

That case is reinforced, for now, by a balance sheet that gives Amazon real room to keep investing without financial strain: net debt relative to EBITDA is close to zero and total debt is a small and shrinking share of capital. The near-term cost of the investment this thesis depends on is real, though-free cash flow has turned negative on a trailing twelve-month basis as capital spending on AI infrastructure accelerates, with 2026 capital expenditure guidance raised to around \$220 billion from an initial \$200 billion target.

Taken together, this gives us a credible, evidenced path to the returns this investment case needs-built on real and improving profitability and a strong balance sheet-but not yet a repeat of the multi-year compounding in shareholder returns that we would ordinarily point to as proof. That still has to be earned, and we will judge Amazon on whether it is.

Leadership we can trust

Amazon's governance reflects many of the sound practices we look for in a leadership team we can trust. Shareholders hold equal voting rights through a single class of stock, so no one-including the founder-carries outsized influence over the rest. The board is fully declassified,

with every director standing for election each year under a majority-voting standard, giving shareholders a regular and meaningful say over who governs the company. Oversight of the numbers sits with a committee made up entirely of independent directors, and the board draws on a genuinely broad mix of experience, skills and background. Executive pay is also structured with a long-term lens: senior leaders are compensated mainly through equity that vests over many years, aligning their outcomes closely with shareholders' over time rather than rewarding short-term results.

As at many founder-led technology companies, there are areas of governance practice we would like to see continue to develop—particularly around board refreshment and independence, the transparency of the board's own self-assessment process, and building more explicit performance conditions into executive pay alongside its already strong long-term, share-price-aligned structure. We see these as natural next steps rather than signs that leadership cannot be trusted, and capital allocation gives us real encouragement here: returns on capital invested in the business have recovered strongly and consistently over the past several years, moving from a cyclical dip to comfortably above the cost of capital, evidence of a management team allocating shareholders' money with genuine discipline.

Taken together, this gives us confidence that Amazon's leadership is anchored by real structural protections and improving capital discipline, and we will continue to watch for progress on the areas noted above as the company scales its investment in AI infrastructure.

From company strength to the Delta decision

Our valuation discipline must therefore connect operating progress to capital intensity. AWS growth and margins cannot be assessed in isolation from the cash required to produce them. The public case is strongest if Amazon can grow valuable customer workloads while reducing the capital and energy needed for each unit of useful computing.

The exact valuation range and reduce-or-exit thresholds remain subject to our internal review. The framework is clear: estimate normalised AWS earnings and cash generation, value retail and advertising conservatively, deduct the cost and risk of sustained infrastructure investment, and require an adequate return relative to credible alternatives. A powerful company can still be a poor investment at the wrong price.

Climate Action is the primary theme because power, efficiency and absolute emissions now shape the durability of Amazon's advantage. Human Advancement is a secondary lens: cloud infrastructure can widen access to useful computing and create skilled jobs, but benefits should be measured rather than assumed. Nature Innovation also matters where facilities draw water or affect land and watersheds. Neither secondary theme substitutes for the primary economic and climate test.

Outcomes: measure the system, not the slogan

Amazon reports that its global data-centre water-use efficiency improved by 52% between 2021 and 2025, reaching 0.12 litres per kilowatt-hour, and that it is 75% of the way towards its water-positive goal. These are useful operating indicators. They are not the whole outcome. A replenishment project elsewhere does not necessarily remove pressure from the same water-stressed community, and an efficiency gain can coexist with higher absolute use when the system grows rapidly.

The carbon evidence requires the same discipline. Amazon reported an absolute carbon footprint of about 80.9 million tonnes of carbon dioxide equivalent in 2025, up 16%. Renewable-energy matching and more efficient chips may lower intensity, but Climate Action ultimately requires absolute emissions, the timing and location of clean power, and the additionality of energy projects to improve as well.

The human doorway is visible in Louisiana, where Amazon has increased its announced investment from \$12 billion to \$18 billion across three data-centre campuses and projects up to 750 full-time jobs, with a further 2,500 positions supported. Those are planned inputs and forecast benefits, not realised outcomes. Over time, the evidence should include jobs created and retained, wages, training pathways, local procurement, grid costs and water impacts.

Value, decision, and tension

We own Amazon because three things need to line up, and at this point two are clearly in place while the third asks for patience. The impact case rests on a genuinely material and improving question-whether the energy, water and carbon cost of AI infrastructure can be managed down even as its economic value rises-where Amazon has real capability but not yet independently verified proof of outcomes. The financial-quality case rests on a business that is demonstrably more profitable than it was three years ago, with margins, returns on equity and earnings all moving in the right direction, even though that improvement has not yet been matched by a comparable run of shareholder returns. The governance case rests on real structural protections-one share, one vote, annual elections, an independent audit committee, and capital allocation now running well above the cost of capital-alongside a small number of areas of governance practice, such as board refreshment and pay design, that we will continue to watch for further progress.

The central tension is the same one facing every hyperscaler right now: the market has to decide whether roughly \$220 billion of annual capital spending on AI infrastructure will earn an adequate return, or whether Amazon-like its largest cloud peers-is investing ahead of demand in a way that will eventually show up as impaired returns on capital, disappointing free cash flow, or both. Free cash flow has already turned negative on a trailing twelve-month basis as this capex cycle accelerates. Valuation discipline, not enthusiasm for AWS's growth rate, is what should govern position sizing here: current estimates imply real undervaluation at today's price, but that view itself depends on the AI capital cycle converting into cash roughly on the timetable those estimates assume-and if it does not, today's apparent discount could prove illusory.

What could break the chain

A number of things could weaken this thesis, spanning demand, capital intensity, financial durability, governance and the impact case itself. We watch for all of them:

- AWS demand or pricing power could weaken if enterprise AI adoption slows, if competitors such as Microsoft Azure or Google Cloud grow share faster, or if customers diversify workloads across providers or their own custom chips.
- The AI capex cycle is the single largest swing factor: 2026 capital-spending guidance has already been raised to around \$220 billion, ahead of consensus, and trailing free cash flow has turned negative for the first time in this cycle. If incremental returns on

that spending fall short, or arrive later than management expects, both cash generation and the valuation case would deteriorate together.

- Some of the recent margin improvement is not repeatable: roughly 60 basis points of the second quarter's operating-margin beat came from one-off items (a derivative-accounting gain and tariff refunds), and the full scale of 2026's reported earnings growth reflects a one-off, largely non-cash gain on Amazon's Anthropic stake rather than core operating performance.
- Continued progress on board refreshment and independence, and on building more explicit performance conditions into executive pay, matters more, not less, as the scale of capital being deployed increases-this is an area we will keep watching for further development.
- The impact case can fail on its own terms even if the financial case succeeds: efficiency gains in water and energy use could be outpaced by the sheer scale of new capacity, particularly if projects such as the planned Pecos County, Texas development rely on new fossil generation without a credible transition pathway.

The distinction between a permitted ceiling and an operating forecast matters at Pecos County specifically-Amazon's permit allows for up to 33 million tonnes of carbon dioxide a year, which is a maximum, not a forecast-but it does not remove the underlying issue. If AI capacity is routinely supplied by new fossil generation without a credible transition path, Amazon's absolute emissions could rise faster than its efficiency gains, and local communities could bear water, pollution or grid costs while receiving fewer durable jobs than announced.

The thesis would weaken materially if AWS growth slowed structurally while capital spending remained elevated, if free cash flow failed to recover as new capacity begins earning, if the governance areas noted above saw no further progress over time, or if Amazon's own climate and community commitments were repeatedly missed without a credible response. It would also weaken if today's apparent share-price discount to fair value proved to be compensating, correctly, for risks that current estimates do not yet fully capture.

Amazon can help make computing more capable and more efficient. But scale turns efficiency into Climate Action only when it also improves the absolute physical outcome. The investment case now rests on all three of the pillars we test across the portfolio: AWS must translate structural demand into durable cash from a genuinely profitable and improving business; that improvement must, over time, be matched by the shareholder returns it has not yet delivered; and the board and management running it must keep building on its governance foundations as visibly as it has strengthened capital allocation. None of that is guaranteed-it is exactly what we hold Amazon to account on as long-term shareholders.

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