



Holland Views: Amazon (\$247)

The AI laggard, that never was!

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A trusted global supplier of AI. One of the reflections that came to us as we researched Amazon in 2023 was of the huge potential of what using a Scale Economy Shared model might yield in the business-to-business sector. Except for TSMC we could not think of another company using it in the business-to-business arena. This intrigued us and suggested a potential huge future opportunity for AWS.

We wrote the above text in 2024. We went on to discuss how customer trust in the B2B sector was Amazon's biggest unseen asset, putting AWS in the prime position to be the world's trusted AI business solutions supplier. As Amazon shares lagged the 2025 AI stock market boom, and investors then became fearful of the size of its AI capex commitments, our optimism seemed misplaced. That was until Andy Jassy published his 2025 Investor letter last week. His articulation of the opportunities he/we saw in AWS seem to finally be resonating. As a core fund holding, we are delighted by this, and see a long road of capital compounding ahead.

“That a company like Amazon sees such a great opportunity to redeploy a huge amount of capital in an accelerated way over the next 5-10 years rather than distribute it to shareholders should be something long-term focused investors find compelling. In essence what this business manager is saying to investors is... ‘whatever you/we thought the fade rate of this business was 2-3 years ago, it is way better than that now’.

Source: [Holland Views: Meta, Netflix, Amazon and TSMC – A fat pitch, Sept24](#)

We enjoyed Jassy's letter so much we decided to summarise it for our own use and share that with readers – see below. This is followed by our comments on Amazon from our June 2024 investment letter and our other research pieces. Our conclusion remains the same today.

Jassy sets record straight

Below we have outlined what we think are the key highlights of a brilliant CEO letter in the depths of an investment phase.

Holland extracts of Andy Jassy's 2025 Letter to Investors

“Most long-term endeavors do not follow a linear straight line, up and to the right. Progress jumps around; it'll zig up, then sometimes stall, or zag down, or force you back to the starting line.

That's because the world is complex, and new technology, business model invention, competitors, global issues, or people and cultural shifts can come into play.

Pundits said enterprises and governments would never use cloud or AWS for anything substantive. In 2008, Netflix decided to move all of its applications to AWS, then came big commitments from GE, Intuit, and others—and eventually the CIA chose AWS as

their partner to build their classified cloud. Growth came fast and furious, and as it accelerated, so too did our capital expenditures (“capex”) with dilutive impact on free cash flow (“FCF”). At our 2014 AWS operating plan review, the discussion started with a senior leader at the company musing, “Tell me again why we’re doing this business?”

Wherever possible, invent the next inflections.

We try to anticipate what will make customers’ lives easier and better every day, and invent the next inflection. Customers always want lower costs and faster delivery speed.

Amazon could be successful for a long time without investing this way in robotics, faster rural delivery, and broadband connectivity for underserved customers and geographies. But, we believe we can invent ways to change what’s possible for customers, are hungry to do so, and are confident these investments will yield meaningful growth and return on invested capital (“ROIC”) for the company.

But too often, companies focus on what looks most tidy instead of ensuring they have enough efforts in play to achieve an important outcome. Let’s go back to fast delivery in our retail business.

Choosing which inflections are truly seminal versus “just interesting” requires judgment. Reasonable people can disagree. But, if you believe you’ve found one of these disproportionate shifts, you want to invest as aggressively as you responsibly can. This will create investment spikes that will invite scrutiny, but the game-changers don’t typically accommodate smoother investment horizons.

One of these seminal shifts is AI.

Every customer experience will be reinvented by AI, and there will be a slew of new experiences only possible because of AI. I’ve followed the public debate on whether this technology is over-hyped, whether we’re in “a bubble,” and if the margins and ROIC will be appealing. My strong conviction, at least for Amazon, is that the answers are no, no, and yes. Here are some truths that are hard to debate.

- a. *We have never seen a technology more quickly adopted than AI.*
- b. *Amazon is smack in the middle of this land rush, and companies are choosing AWS for AI.*
- c. *AWS could be growing even faster.* [As an aside, two large AWS customers have already asked if they could buy *all* of our Graviton instance capacity in 2026—we can’t agree to these requests given other customers’ needs, but it gives you an idea of the demand.]
- d. *Our chips business is on fire, changes the economics for AWS, and will be much larger than most think.* Having our own hotly demanded AI chip opens up many possibilities, but perhaps none larger than the ability to lower costs for customers and secure better economics for AWS. Our annual revenue run rate for our chips business is now over \$20 billion, and growing triple digit percentages YoY. That run rate is somewhat understated. If our chips business was a stand-alone business, and sold chips produced this year to, our annual run rate would be ~\$50 billion.
- e. *The way AWS’s cash cycle works is that the faster AWS grows, the more short-term capex we’ll spend.* The FCF and ROIC for these investments are cumulatively quite attractive a couple years after being in service.

We have customer commitments that make our capex investments predictable. We're not investing approximately \$200 billion in capex in 2026 on a hunch.

We are willing to make large capex investments and endure short-term FCF headwinds for the substantial medium to long-term FCF surplus. AI is a once-in-a-lifetime opportunity where the current growth is unprecedented and the future growth even bigger. AWS has a significant leadership position with the broadest functionality, strongest security and operational performance, largest share of customers and revenue, strong desire from customers to run their AI in AWS, and an opportunity to build what could be a new pillar for Amazon in chips. **We're not going to be conservative in how we play this—we're investing to be the meaningful leader, and our future business, operating income, and FCF will be much larger because of it.**

We believe that customers will always care deeply about massive selection, low prices, very fast delivery, ease of use, and how they're treated. Amazon has built a lot of capabilities that position us well to meet these customer needs for years to come. However, it's not hard to imagine with the emergence of AI, that the interface with which customers want to interact with a retailer could be substantially different over time. The temptation is to just add a little AI to the existing experience. That's a start. But, the trick for leaders, ourselves included, is how to get organized and convicted about going back to the starting line and reimagining your experiences from a clean sheet of paper, assuming you were building with the new technology available.

Cultivate a culture that can cope with squiggly lines.

The historical business landscape is littered with companies that wished away big new inflections to their own detriment.

- a. You need to have the right data, mechanisms, and truth-tellers to deeply question what's changed and should therefore be done.
- b. You have to have people and a culture that are comfortable operating with ambiguity as you sort through the new normal.
- c. You need to invent and experiment like crazy.
- d. You need to learn constantly.
- e. You need to move fast.
- f. You have to be comfortable potentially over-rotating when pursuing one of these big needle-movers. You may end up investing a little more than needed.
- g. You have to be adept at both inventing the inflections and recognizing when others have started ones that you should pursue as well.
- h. You have to be willing to reimagine not only every customer experience, but also how you organize and get work done.
- i. And, you have to be able to withstand criticism as you're making your way through an inflection.

Source: [Andy Jassy's 2025 shareholder letter, 9th April 2026](#) (emphasis ours)

Our previous Amazon reflections

What follows is us re-publishing our past commentary on Amazon/AWS and AI. Our view today is unchanged from that reflected below.

Extract from Holland Advisors Investor Letter – June 2024

Amazon is an important company for the fund. More because of the business model it has powerfully employed than just our ownership of it. The Scale-Economy-Shared model is one we seek out around the world and often find investor misunderstandings of it. Our holdings of Ryanair, JDW and Jet2 all use this same business model. Amazon did not invent this model, but arguably sought inspiration from the likes of Costco. The idea of using scale to give customers low prices, not high ones is something that goes a long way back and often is a quiet underpinning of many great businesses (Standard Oil, led by John Rockefeller in c.1900 perhaps being an early example). These two pieces [Holland Advisors: Amazon – The one that got away, May 2022](#) and [Holland Advisors: Amazon – Reflections on a SES Gorilla, Sept 2023](#), we hope give an insight into our Amazon thinking. Here is extract from the latter piece from September last year.

A trusted global supplier of AI

One of the reflections that came to us as we researched Amazon last year was of the huge potential of what using a Scale Economy Shared model might yield in the business-to-business sector. All the companies we have studied globally using this business model do so in the B2C arena. Except for TSMC we could not think of another using it in the business-to-business arena. This intrigued us and suggested a potential huge future opportunity for AWS. With AWS providing critical functionality to many of the world's biggest and most important organisations, Amazon has become a highly trusted business partner. That it shares its efficiency in a way so few suppliers do, is also a dramatic change in how government departments (for example) are used to engaging with those they outsource to. This we observed was crucial relationship building at multiple levels in an unprecedented way. We suggested this could mean that one day Amazon would be set to sell more B2B services which if in demand and offered at the right price those customers would quickly trust it to supply.

What those future products were going to be we had little idea when writing last Spring. Listening to Andy Jassy on the company's most recent investor call leads us to think that AI might be one such product area. We are likely to be the last people to understand what and how AI can be deployed globally, but even we can see its potential in the business sector in problem solving and customer handling etc. Andy Jassy's comments we thought revealing. Yes, we can all see/read that Nvidia has complex AI chips that the world wants today but is Ryanair going to order those chips and start building its own AI functions in house from scratch? No, they are either going to outsource such functions to other companies that most likely will run the programming through AWS cloud data system. Or they are going to wait until easier to use off the shelf products are provided to them by a corporate, they already trust to innovate, who supplies needed functionality at great prices. Enter Amazon. That AWS has already shown its ability to develop its own chips (Graviton) in the past, passing on the achieved efficiency to AWS customers is a blueprint for what might come next for AWS and AI.

Source: [Holland Advisors: Interim Investor Letter, June 2024](#)

Extract from Holland Views: Meta, Netflix, Amazon and TSMC. A fat pitch. Sept 24

Our assessment of Amazon positioning in the AI world we have discussed in past pieces. What we have heard from recent Amazon calls was something different from other investors it seems. All we heard was of the enormous opportunity for AWS to scale for decades to come. Unlike the past scaling of Amazon's ecommerce arm, AWS can do so while generating great margins and returns on capital. AI, in whatever manifestation, is just a turbo drive to AWS growth rates, in gradient and duration. Possibly both.

“AI is going to get big fast, and all of it is going to happen online...i.e. in cloud not on in-house servers” Andy Jassy, Amazon Q2 analyst call

Conclusion

Re-investment: Compounding’s secret sauce

The power of re-investment at a good rate of return is something Messer’s Buffett, Munger & Sleep helped us think much harder about. We call businesses that can do this: PUMTMM’s – (Put Up More to Make More). Our work in this area has given us a different pair of glasses to Mr Market’s when new investment phases kick off in a company/industry. He often sees lots of reasons to worry. Depending on the company we can see reasons to celebrate. This was the thinking behind our September 2024 piece [Meta, Netflix, Amazon and TSMC – A fat pitch](#)

“At Berkshire, we particularly favor the rare enterprise that can deploy additional capital at high returns in the future. Owning only one of these companies – and simply sitting tight – can deliver wealth almost beyond measure. Warren Buffett, Berkshire Hathaway 2023 annual shareholder letter, published 25th February 2024.

With best wishes to all

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