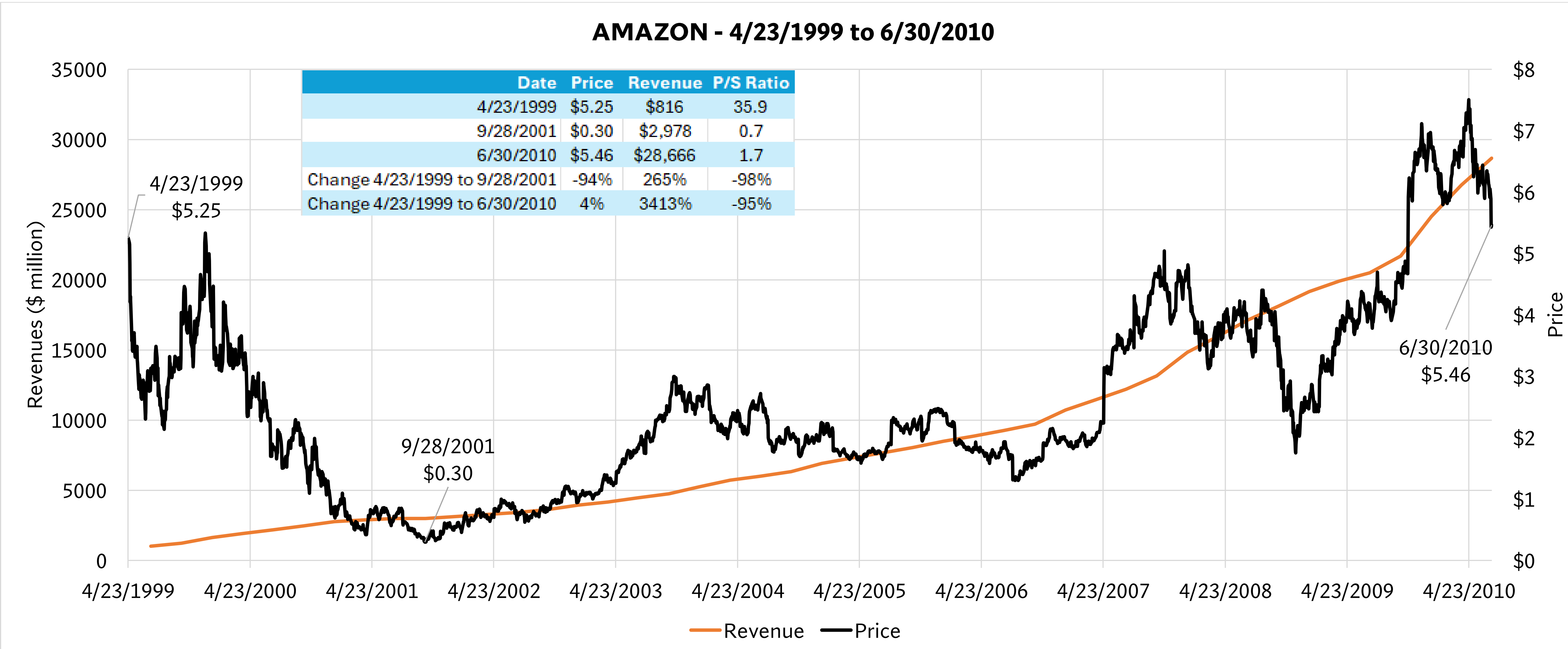
EQUITY RISK SCIENCES, INC

The Power of P/S Compression in Amazon's Lost Decade

From 35.9 to 1.7: A Valuation Crash That Revenue Growth Couldn't Fix



Date	Price	Revenue	P/S Ratio
4/23/1999	$5.25	$816	35.9
9/28/2001	$0.30	$2,978	0.7
6/30/2010	$5.46	$28,666	1.7
Change 4/23/1999 to 9/28/2001	-94%	265%	-98%
Change 4/23/1999 to 6/30/2010	4%	3413%	-95%

Amazon's early trading history reveals one of the clearest demonstrations of P/S compression in modern financial markets. From 1999 to 2010, Amazon grew revenue faster than almost any major company in history. Yet investors who bought the stock at its 1999 valuation saw almost no return for more than a decade. This disconnect was not caused by weak business performance—it was caused by an extreme collapse in Amazon's valuation multiple.

On **4/23/1999**, Amazon traded at **$5.25** on revenues of **$816 million**, giving it a Price-to-Sales ratio of **35.9**. This was an extraordinarily high multiple, one that implied flawless execution and near-perfect future profitability. When reality failed to match that level of optimism, the valuation unwound. By **9/28/2001**, the stock had fallen to **$0.30**—a **94 percent loss**—even though revenues had more than tripled to **$2.98 billion**. The P/S ratio collapsed from **35.9 to 0.7**, a **–98 percent compression**, reflecting the market's reset of expectations from fantasy to feasibility.

Amazon's business continued to grow spectacularly. By **6/30/2010**, revenues reached **$28.7 billion**, a staggering **3,413 percent increase** from 1999. Yet the stock had only returned to **$5.46**, a modest **4 percent gain over eleven years**. The company executed brilliantly, but the valuation from which investors started was so inflated that the first decade of wealth creation went entirely to repairing the initial overpricing. It took years of compounding revenue growth just to overcome the mathematical force of P/S multiple contraction.

Amazon's early years demonstrate a fundamental investment truth: **P/S compression is one of the most powerful—and most damaging—forces in equity markets.** When valuation begins at an unsustainably high level, even extraordinary growth cannot produce strong returns. Amazon did not fail; its valuation did. And until price and realistic economic value realigned, shareholders earned nothing.

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