# Amazon Is Primed for a Battle Royale With U.S. Antitrust Regulators

*Politicians have been angling for greater oversight of big tech companies like Amazon.com and Alphabet. Now the wheels have been set in motion, and both sides are primed for a long, hard fight over the future of ecommerce, privacy and monopoly.*

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It's here. Politicians have been itching for greater oversight of big technology. Now the wheels have been set in motion.

The Washington Post [reported](https://www.washingtonpost.com/technology/2019/06/02/amazon-could-face-heightened-antitrust-scrutiny-under-new-agreement-between-us-regulators/?utm_term=.db335c7fb8e4) Friday that the Federal Trade Commission and Department of Justice divvied up oversight of Amazon.com ([**AMZN**](https://www.thestreet.com/quote/AMZN.html)) and Alphabet ([**GOOGL**](https://www.thestreet.com/quote/GOOGL.html))  with the FTC overseeing Amazon and the DOJ being responsible for Alphabet. The implication is that investigations are coming.

Investors should worry. Alphabet shares were already falling on Monday morning as reports of an [imminent DOJ investigation of that company](https://www.thestreet.com/investing/stocks/google-slumps-as-network-issues-doj-probe-report-china-list-pressure-shares-14978494) surfaced.

And although these processes have probably been underway for some time, news of greater oversight comes as Amazon is reportedly looking to enter the wireless market through the [possible purchase of Boost Mobile](https://realmoney.thestreet.com/investing/technology/how-amazon-could-put-a-nationwide-wireless-network-to-use-14978258?_ga=2.138022453.408371693.1559564139-1566867844.1551884229). Shares of Amazon were down 3% to 1,721.75 on Monday morning compared to a decline of 0.7% for the Nasdaq.

Shares of were dxaafor grabs because T-Mobile ([**TMUS**](https://www.thestreet.com/quote/TMUS.html)) and Sprint ([**S**](https://www.thestreet.com/quote/S.html)) are pledging to divest Boost as part of their $26.5 billion merger plan. Analysts believe the Irvine, Calif. business has 7 million to 8 million subscribers in the U.S. and Australia and might fetch $4.5 billion if radio spectrum is included.

Some have speculated Amazon is gathering wireless spectrum for future autonomous delivery drones and vans. It's a controversial bet. One analyst at Moffet Nathanson [told](https://www.bloomberg.com/news/articles/2019-05-31/amazon-entering-wireless-would-be-batshit-crazy-analyst-says) Bloomberg such a deal would be "batsh\*\* crazy".

That assessment may be short-sighted. Amazon's best in class e-commerce platform is built around customer service. Its patrons love it so much that 100 million of them are willing to pay a fee just to be members.

For that fee, about $119 per year in the U.S., Amazon Prime customers get two-day (soon to be one-day) delivery on thousands of items, unfettered access to digital TV shows and movies on Prime Video, music on Prime Music and book exchanges, as well as deals at Whole Foods, the 500-store grocery chain that was folded into the Amazon ecosystem in 2017, following a $13.4 billion [merger](https://www.nytimes.com/2017/06/16/business/dealbook/amazon-whole-foods.html).

Ultimately, Boost may be about wireless spectrum, drones and driverless cars. But it's even more likely that Amazon managers are thinking about how a prepaid wireless provider, with a thriving business in key markets, could help attract even more members to Amazon Prime.

Loyalty is what separates the e-commerce giant from the competition. Adding a seemingly discounted wireless business to Prime would make it even stickier.

Unfortunately, for shareholders, government regulators may being doing the math, too. Putting Amazon.com under the jurisdiction of the FTC means the Feds are now going to take a prolonged, hard look at everything.

Since the 2016 U.S. presidential campaign, Jeff Bezos, Amazon's founder and CEO, has become a somewhat accidental foe of President Trump. The Seattle billionaire also owns the Washington Post, whose editorial board has been a frequent critic of the president.

In the past, President Trump has lashed out, calling for investigations into Amazon.com. He suggested in 2018 that Amazon.com was scamming the post office. That assessment is factually incorrect, according to a New York Times [story](https://www.nytimes.com/2018/12/04/us/politics/trump-amazon-post-office.html), but the damage was done. Bezos, and Amazon made it onto a hit list, of sorts.

And there is some reason for investors to worry.

White-label products, goods often manufactured offshore but sold under the Amazon brand, are growing fast. Customers searching Amazon.com for batteries or baby wipes are likely to be directed to an Amazon Basics choice.

Mary Meeker, the famed internet analyst, [claimed](https://www.zdnet.com/article/internet-trends-2017-key-takeaways/) in 2017 that Amazon sold more batteries than Duracell, and almost as many diapers as Procter & Gamble ([**PG**](https://www.thestreet.com/quote/PG.html)) .

But that's only half the story. Since inception, Amazon.com software has been cataloging and data mining customer purchases. Software engineers and product managers know what items are trending, which ones are being searched and most importantly, what price customers are willing to pay. It's a wealth of information that the company has been using to successfully develop white label products.

TKI Research [found](https://this.just.in/amazon-brand-report-october-2018/) in October 2018, the company had 120 distinct brands, and another 150 Amazon exclusive brands, including apparel and furniture.

That business, according to a CNBC [reported](https://www.cnbc.com/2018/10/06/amazon-doubling-down-on-private-label-sellers-see-huge-fear.html), is expected to generate $25 billion in sales by 2022, or three times their current revenues of $7.5 billion.

It's an unfair advantage Amazon has over other sellers at Amazon.com.

I have been bullish for Amazon shares for a decade. I have repeatedly told investors to use every dip as an opportunity to add to longer term positions. The business is that good. However, I acknowledge that greater oversight from the FTC will be near-term headwind for the stock.

Amazon's market capitalization has swollen to $870 billion. Shares trade at roughly 45x forward earnings, and 3.5x sales. This is the richest valuation among big retailers.

Walmart ([**WMT**](https://www.thestreet.com/quote/WMT.html)) , for example, has $515 billion in sales, about 2.5x that of Amazon, and its shares trade at 20x forward earnings and just .56x sales.

Amazon shares could easily trade back toward the $1,600 level over the next several months as regulators begin examining the business. Investors should consider using that weakness, if it comes, to build on existing positions.

Amazon and Alphabet are holdings in Jim Cramer's [Action Alerts PLUS Charitable Trust Portfolio](https://secure2.thestreet.com/cap/prm.do?OID=038652).