The Meteoric Rise of Amazon

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Abstract

This project studies the meteoric rise of Amazon.com (NASDAQ: AMZN) in the recent years. The company's stock increased by 513% over the last 5 years while the S&P 500 index (which is an indicator of overall markets) grew by 80% approx. Amazon.com was founded in 1994 and went public in 1997; it has now become the largest retailer in the United States. This study looks at the financial performance, the operational performance and attempts to carry out an investment analysis of Amazon in the recent past. Using Microsoft Excel, this study performs an analysis of financial statements available from investor reports of the company and also from the database Mergent Online. This study employs both a percentage comparison and ratio analysis to provide the reader with the perspective on the growth of the company and explore the key financial drivers of success achieved by amazon.com. The uniqueness of this study is that it enables readers to look into the financial strategy of Amazon and how it has allowed them to become the powerhouse of retail.

Introduction

AMZN – Amazon is a publicly traded American company founded July 5th, 1994 in Seattle, WA by Chairman and CEO Jeff Bezos. Since conception, Amazon has acquired companies, such as Whole Foods and Zappos, to enhance their market share and penetrate other markets. Recently, Jeff Bezos has discussed entering the Health Care industry with Warren Buffett (CEO, Berkshire Hathway) and Jamie Dimon (CEO, JP Morgan Chase Bank).

	2017	2016	2015	2014	2013
Revenue	177,866	135,987	107,006	88,988	74,452
Cost of sales	111934	88265	71651	62752	54181
Gross margin	65,932	47,722	35,355	26,236	20,271
Marketing expenses	10,069	7,233	5,254	4,332	3,133
General & Admin expenses	3,674	2,432	1,747	1,552	1,129
Operating Profit	52,189	38,057	28,354	20,352	16,009

Table 1: Snapshot of Income Statement for years 2006 to 2012

Report Date	Dec-17	Dec-16	Dec-15	Dec-14	Dec-13
Total current assets	46%	55%	56%	57%	61%
Total assets	100%	100%	100%	100%	100%
Long-term borrowings	19%	9%	13%	15%	8%
Short term liabilities	44%	53%	52%	52%	57%
Total equity	21%	23%	20%	20%	24%

Table 2: Snapshot of common size balance sheets from 2006-12 (% total Assets)

Liquidity	2017	2016
Current Ratio	1.04	1.04
Quick ratio	0.76	0.78
Cash ratio	0.35	0.44

Solvency Ratios	2017	2016
debt ratio	0.79	0.77
times interest earned	5.49	9.04
cash coverage ratio	5.49	9.04

Asset Management Ratios	2017	2016
inventory turnover	6.98	7.70
days' sales in inventory	52.33	47.39
receivables turnover	13.51	16.31
days' sales in receivables	27.01	22.38
total asset turnover	1.35	1.63

Profitability ratios	2017	2016
profit margin	0.02	0.02
ROA	0.02	0.03
ROE	0.11	0.12

Market value ratios	2017	2016
EPS	6.15	4.90
P/E	190.16	153.03
PEG	6.81	0.51
M-BV	20.81	18.81

2014 DuPont analysis	2017	2016
Profit Margin	0.02	0.02
Asset turnover	1.35	1.63
Financial Leverage	4.74	4.32
ROE	0.11	0.12

Table 3: Financial Ratios

Method

To complete my research, I looked at the following:

- Analysis of the company's financial statements from 2013-2017 (e.g. income statements and balance sheet)
- Research and analysis of potential future acquisitions by Amazon

Discussion

- Operating Profit:

Table 1 shows that operating profit of AMZN has increased by 226% over the past 5 years. This is on an account of growth in sales revenues.

- Current Assets and Liabilities:

From Table 2, it can be observed that current assets are declining which insinuates that the company is creating revenues with tighter inventories and receivables. Also, short term borrowings have decreased while long term liabilities have increased. The company has used the low interest regime to expand its balance sheet.

- Financial Ratios:

Table 3 contains financial ratios that analyzes the company from several different aspects. When comparing Amazon to its' biggest competitor, Walmart, we realize that Amazon has better liquidity that Walmart. The times interest earned provides valuable insight on how many times Amazon can pay its interest. In this case, Amazon can pay its' interest expenses 5x in their current position. Amazon, compared to Walmart, has strong and weak asset management ratios. For example, Walmart has a receivables turnover of 107 whereas Amazon has a receivables turnover if 13. Lastly, the market-to-book value indicates investors are paying 20x the book value for a share of Amazon stock.

Results and Conclusion:

Amazon's stock price, relative to the S&P 500 share price, has increased dramatically over the past 5 years.

The company focuses on continuous innovation. For example, Jeff Bezos refers to everyday as Day 1 to keep employees from becoming complacent.

With recent discussion of increased pressure due to higher shipping costs and taxation from the Government, it will be interesting to see what happens with Amazon's profitability.

Sources:

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