

**Amazon.com, Inc.
2014-2018
Financial Analysis Report**



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Contents

Introduction.....	
Economic Analysis.....	
International Level.....	
National Level.....	
Capital Market Analysis.....	
Industry Analysis.....	
Company Analysis: Business Strategy Analysis.....	
Company and its Business.....	
Company Analysis: Management Analysis.....	
Business Valuation: Market Value of Company.....	
Longer Term Outlook for Company.....	
Simple Balance Sheet & Income Statement for Five Years.....	
Comparative Balance Sheet & Income Statement for Five Years.....	
Balance Sheet & Income Statement Analysis: Pie Charts and Line Charts.....	
Ratio Analysis.....	
Final Evaluation: Invest or do not Invest (Buy-Sell-Hold).....	

Introduction

This report has been created on Amazon.com, Inc. based on financial data compiled from fiscal years 2014-2018.

This report has been customized for Amazon.com, Inc. business to present information needed to compare annual business performance to comparable businesses within the retail and e-commerce industries. This information can help determine if Amazon's business strategy is competitive within each industry it performs in and pinpoint the company's strengths and weaknesses. It will also enable investors to benchmark the firm's performance over time, allowing to chart the progress and analyze performance more effectively. Thus, allowing more informed decisions to be made about the company's direction.

Please review this report carefully as it is important that you fully understand the data presented here. Please be aware that the analysis presented is based on historical figures. It is not a prediction of the future but rather a tool for monitoring the progress of Amazon.com, Inc. over time. This information should factor into your decision making, but it should not be the only factor in your investment decisions. Be sure to consult all appropriate resources and professionals before making any decisions that may affect the financial health of your portfolio.

Economic Analysis: International Level

Overall health of the international economy and financial markets prospers on the reliance of countries' cooperation of free trade and global competition. That reliance provides global growth and stability of financial markets. World trade organizations are in place to regulate trade between nations. They are entities where nations can negotiate trade agreements and settle disputes. Essentially, they are a place where member governments sort out the trade problems they face with each other.

Many World Trade organizations push for lowering trade barriers to encourage more trade between nations. With stability and predictability, investment is encouraged, jobs are created, and consumers can fully enjoy the benefits of competition – choice and lower prices.

Currently, the international community is witnessing a trade war happening between the world's two largest economies. The United States and China. Going on day 397 and counting, no plausible resolution is in sight to end this trade war. Both sides have subsequently raised tariffs on imports from each other totaling a \$360 billion-dollar trade war. Its effects have not only been felt by the two countries financial markets but also by neighboring countries who participate in the export and import supply chains. Countries that share computer electronics industry output dependent on Chinese exports to the U.S. are Taiwan (5.81%), South Korea (4.36%), Malaysia (3.87%), Singapore (3.14%), Thailand (3.21%), and a host of other countries. On the other hand, countries affected by the United State's exports to China include Canada in energy products (1.11%), Mexico in metal products (0.87%), Ireland in machinery and equipment (0.27%), Saudi Arabia in energy products (0.26%), Colombia in energy products (0.54%), and a host of other countries as well.

If no solution is reached quickly, it is estimated that global GDP will take a \$600 billion-dollar hit in 2021. Financial markets globally have responded to the escalation in the trade war. Share prices have fallen sharply as investors look to hedge their positions in traditional assets such as gold. In the span of a week, it is reported that the stock market had lost more than \$1.4 trillion-dollars.

Economic Analysis: National Level

The U.S. economy is beginning to show signs of recovery from the 2008 Great Recession. Jobs are being created by the millions and foreign exports accounted for only 11.9% of the nation's GDP. These signs indicate a healthy, self-sufficient economy. 5 industries take the lead with propelling the economies continued growth. First is the healthcare industry that has added 2.8 million jobs between 2006 and 2016. It is estimated that this growth will continue through 2026 at a growth rate of 18%. The tech sector is next up with projected growth rates from 2016-2026 at 13%. Demand for additional workers is stemming from cloud computing, the collection and storage of big data and information security. The third sector is construction. This includes both residential and nonresidential builders and contractors. With a growth rate of 11% from 2016-2026, overall economic and population growth increases demand for new buildings, roads, and other structures. The retail trade accounts for 6 percent of the nation's GDP with a GDP value added of \$905 billion. The retail industry is the largest employer in the United States, according to World Atlas, and 10 percent of total employment in the United States is in retail. Non-durable manufacturing is a predominant pillar in the United States with a GDP value added of \$821 billion or 6 percent of the national GDP, according to WorldAtlas. The non-durable manufacturing sector is less valuable than durable manufacturing; however, it employs more people and accounts for 4.4 million jobs compared to 349,000 jobs from durable manufacturing.

With the republican party occupying the presidency and majority of the senate, the U.S. has seen a rollback on corporate legislation and favorable corporate tax laws. This helps the bottom line of many companies and is reflected in market optimism. At the same time, a drawn-out trade war with China hinders future economic growth which has shown downturn in the United States' stock market. Billions of dollars in tariffs raised on both sides hurts companies that do business in both countries.

Capital Market Analysis

The volume and returns for the stock market indicate that the financial health of the nation's economy is in good condition and is a hub for future growth. With the market being aware of economic conditions of the international community, the trade war between China and the U.S. took a toll on prices towards the end of 2018 and last week. If a trade deal can be made, then many analysts say the market would reflect optimism for global growth in the near future. The bond market is in strong health as well bringing in relatively consistent returns.

Industry Analysis

Retail is how producers of goods and services get their product to consumers. Retailers often get their goods from manufactures, who construct the finished product. An alternative to purchasing directly from manufacturers is to buy through a middleman known as a wholesaler or distributor. Wholesalers consolidate a variety of products and repackages them for easier marketing and distribution. Retailers are the last stop on the supply chain before products reaches customers. The 5.9% retail industry share in GDP for 2017 generated \$1.14 trillion in value added and provided 4.8 million jobs to the public.

Retailers make their money by selling their products at a price well above labor costs, equipment, and other expenses. This price increase is typically known as a markup or profit margin. The modern-day retail trade throughout the U.S. is ultra-competitive between all types of retail stores. Companies are doing whatever they can to gain that extra edge over their competitors and some are doing that better than others. The top retail giants provide a wide variety to consumers and are increasingly diversifying their portfolios a great deal. Ranking at the top in terms of revenue in 2017 was Walmart with \$500.3 billion, Costco Wholesale Corporation with \$129 billion, Amazon with \$118 billion, and The Home Depot with \$100 billion. Each of these corporate industry developments for retailers consist of uncharted territory. Consumer data and what companies do with it is increasingly becoming questioned as marketing tactics accurately predict behavior. We see more and more laws regulating the extents of data information and its transparency. Experts say the best course of action is for companies to be responsible with consumer data and transparent if it is shared. Another industry development is building individual relationships with customers and gaining loyalty on the basis of experience versus transactional loyalty through rewards points. Word of mouth is still the best way to promote a business and the more loyal and satisfied customers are, the more they'll advocate for a company. Companies' logistics and supply chains to improve efficiency and differentiate themselves from the competition is important as well. Leading retailers like Amazon and Walmart boast the top supply chains that deliver accuracy, dependability, and with short lead times. Supply chain improvements can certainly be a growth driver. Companies utilize their competitive advantages against one another to gain market share against each other.

Company Analysis

Amazon.com, Inc. is an e-commerce and cloud computing company headquartered in Seattle, Washington. Renowned as the largest internet retail company in the world. Since its launch in 1994, the company has been led by its founder Jeffrey Bezos who serves as President, Chief Executive Officer, and Chairman of the Board. Other top executives of Amazon include Brian T. Olsavsky as Executive Vice President and Chief Financial Officer, Jeffrey M. Blackburn Senior Vice President, Business Development, and Andrew R. Jassy Chief Executive Officer, Amazon Web Services. In 25 years of business Amazon has taken on an aggressive acquisition strategy, purchasing various businesses adding to its portfolio. In early March 2019, one of Amazon's recent acquisitions is a company called Euro, who specializes in designing products to facilitate home WIFI and smart device setup. With the many diversified aspects of business

Amazon engages in, its core activities goes back to how the online retail giant was started. Despite its dominance in e-commerce, online sales are not actually a main profit generator for the company. Instead, its cloud computing division, Amazon Web Services, has generated the majority of Amazon's operating income since 2016. Profits from advertisers are also booming. The production capacity Amazon has throughout the U.S. consists of 159 fulfillment centers, supplemental centers, and return centers, 21 pantry/fresh food fulfillment centers, 12 Wholesale grocery distribution centers, 53 prime now hubs, 9 inbound sortation centers, 45 outbound sortation centers, 119 delivery stations, and 4 airport hubs totaling 422 current facilities and more planned to be in operation for the future. Amazon's product diversification leads retailers across apparel, electronics, groceries, and a number of other categories. A search of the site reveals over 3,000 listings for vegetable soup. Search the term "nuts" and you'll see over 37,000 results. In 2007, the first Kindle e-reader was released. Not too long after that Amazon launched its Amazon Studios in 2010 and its prime video service in 2011. Another creative product, the Amazon FireTV was also launched in 2014 and 2015 brought its first brick and mortar store that customers order online and pick up the same day. Amazon's pricing strategy can be categorized in a similar fashion as Walmart's strategy. Amazon is known for bringing the lowest prices to consumers and without the expenses that are associated with brick and mortar they've led the way and forced traditional retailers to follow suit with e-commerce. The Amazon pricing strategy outpaces their competitors with the number of adjustments and speed in a single day. In 2013, Amazon had changed prices on about 40 million products in just one day. By the end of that year the number had doubled to 80 million price changes during a single day. Amazon is focused on keeping prices low and offering a wide selection. Due to the deals that they have daily, they are able to achieve this with ease. Amazon continuously take over industries whether it's electronics, book stores, apparel, or media. They have created a system that at this point cannot be rivaled.

Company Management

The top managers at Amazon are a small, highly educated team of executives that oversee the broad aspects of the company and plan for its future. Its leadership is run by Jeffery P. Bezos who is the President, Chief Executive Officer, and Chairman of the Board. Mr. Bezos founded Amazon in 1994 and built the company around the idea to be the most customer-centric company. Brian T. Olsavsky's position is Senior Vice President and Chief Financial Officer. He joined Amazon in April 2002 and as CFO oversees the company's overall finances including controllership, tax, treasury, analysis, investor relations, and internal audits. Jeffery M. Blackburn is Senior Vice President, Business Development. Mr. Blackburn holds a BA from Dartmouth College and an MBA from Stanford's Graduate School of Business. In addition to working in business development, Blackburn once oversaw European Customer Service, and Operations Integration. Andrew R. Jassy holds the title of Chief Executive Officer, Amazon Web Services (AWS), the world's most comprehensive and broadly adopted cloud platform. Having led AWS since its inception, he's managed an inventive and nimble team that has delivered more than 90 cloud infrastructure and application services that are used by millions of startup, enterprise, and government customers around the world. According to latest SEC filings, Jeff Bezos, Andrew R. Jassy, Jeffery M. Blackburn and Jeffery Wilke are Amazon's 4 largest individual shareholders. The Amazon CEO Jeff Bezos owns 78.88 million shares of the company and is worth \$131.4 billion topping the Forbes list. Andrew R. Jassy, CEO of Amazon

Web Services is the second largest individual shareholder owning 91,231 shares of the company. Jeffery Wilke, CEO Worldwide Consumer for Amazon since April 2016 owns 60,040 shares of the company. 50,040 of those are owned indirectly through a trust. Jeffery M. Blackburn, Senior Vice President of Business Development holds 62,874 shares of Amazon

Business Valuation

Business valuation						
Cash flow						https://finance.yahoo.com/quote/AMZN/cash-flow?p=AMZN
	\$5.899 Billion	\$1.333 Billion	\$3.759 Billion	\$1.922 Billion	\$10.317 Billion	
Market value of company (market capitalization of your company)						https://ycharts.com/companies/AMZN/market_cap
	\$149.53 Billion	\$251.82 Billion	\$386.90 Billion	\$456.78 Billion	\$981.81 Billion	
Longer term outlook for the company (trend of future earnings, earning power)	The long-term outlook for Amazon is bright. The leadership of the company has been sound and stable since its infant days and earnings and performance metrics are constantly beating street expectations in recent days. With the market capitalization growing exponentially over the past, it's apparent that many believe in Amazon and its leadership to bring them returns and present viable opportunities around the world.					

Balance Sheets & Income Statements

Both the balance sheet and income statement of Amazon point to sound, financial management. Picking apart the numbers and comparing them to industry standards certainly places Amazon amongst the top retailers in the United States. As the company grows at an exponential rate, the income statements and balance sheets reflect that growth in between certain years. As the same with a bad year the financials also reflect that. Overall, Amazon's financial management has been intelligent and on pace to continue

Final Evaluation

My conclusion is that Amazon is a strong, financially sound corporation with a solid management team that has a customer-first mindset. The unique business model allows for the company to rapidly grow. Proper financial management places Amazon as a leader in the e-commerce industry with ratios better than industry averages. The future for Amazon looks bright with steady and consistent growth. Although a sound company, the market price for a share of Amazon is priced well above its book-value leaving little margin of safety for investors looking to profit over the long-term. I would not recommend purchasing Amazon stock for that very reason unless there was a significant correction in its market price.

