

MGMT 314-01 : Financial Statement Analysis

Dr. Williams

Amazon.com, Inc.
Company Valuation

June 17th 2022

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I. Business Overview

Amazon.com, Inc. is an American-based multinational technology company that focuses on e-commerce, cloud computing, digital streaming, and artificial intelligence through numerous subsidiaries. Founded by Jeff Bezos in his garage in Bellevue, Washington, Amazon started as an online marketplace for books. Since its inception, Amazon has expanded into a multitude of product categories and has been referred to as "one of the most influential economic and cultural forces in the world". It is now one of the world's most valuable brands.

Corporate Governance: Group Structure

Amazon.com, Inc.'s international headquarters is located in Seattle, Washington, USA. There are also other various campuses including retail hubs, distributions centers, and software development centers. Their European headquarters are in Luxembourg's capital, Luxembourg City, and in August of 2019, Amazon opened its largest campus in the world at Nanakramguda in Hyderabad, India. The 9.5 acre campus houses over 15,000 employees. Amazon plans to build another major campus in Bellevue, Washington, where they will host 15,000 employees by 2025.

Corporate Governance: Executive Committee & Board of Directors

Amazon's organizational structure is hierarchical with their senior management team including three CEOs and three senior vice presidents responsible for various vital aspects of the business reporting directly to CEO Andy Jassy. Amazon organizational structure provides the following key features: hierarchical corporate structure, hybrid project groups, flexibility of the business, and stability in the top management. It can be argued that due to the company's adherence to business diversification strategy in an aggressive manner, its organizational structure will remain dynamic.

Originally started as an online bookselling company, Amazon has morphed into an internet-based business enterprise. Following an Amazon-to-buyer sales approach, the company offers a monumental product range and inventory, enabling consumers to buy just about anything, including clothing, beauty supplies, gourmet food, jewelry, books, movies, electronics, pet supplies, furniture, toys, garden supplies and household goods. Amazon continues to satisfy customers with not only online retail, but also consumer technology, subscription services, digital content, AWS, AI services, and privately owned brands.

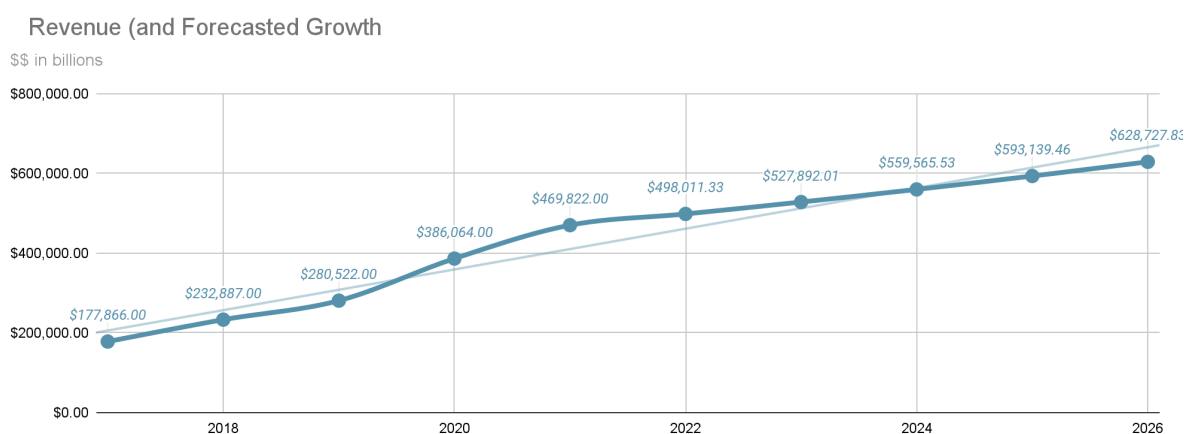


(Figure 1): From online shopping to subscription services to publishing, Amazon offers products and services in a multitude of industries. (Yasar & Wigmore, 2022)

The company's mission is "to be Earth's most customer-centric company" and they strive to do so through expanding into almost every market. Amazon features multiple subsidiaries including Amazon Web Services (cloud computing), Zoox (autonomous vehicles), Kuiper Systems (satellite Internet), Amazon Lab126 (computer hardware R&D). Its other subsidiaries include Ring, Twitch, IMDb, MGM Holdings and Whole Foods Market. From analyzing the geographic net sales, 59.6% was from North America, while 27.25 was internationally developed, and 13.2% was from AWS.

II. Industry Introduction & Overview

In the most recent years, Amazon has recorded steady growth in net revenue. Throughout the pandemic, online shopping has only become a more prominent industry. Amazon currently dominates the U.S ecommerce market, accounting for 49.1% and expected to increase in the next few years. Amazon managed to generate \$469 billion in US retail e-commerce sales in 2021, up 21.7% over 2020 and 70% from 2019. By 2026 they are expected to grow to \$628 billion given a CAGR of 6.0% annually.



(Figure 2): Amazon.com, Inc.'s revenue from the past five years and projection for next five years.

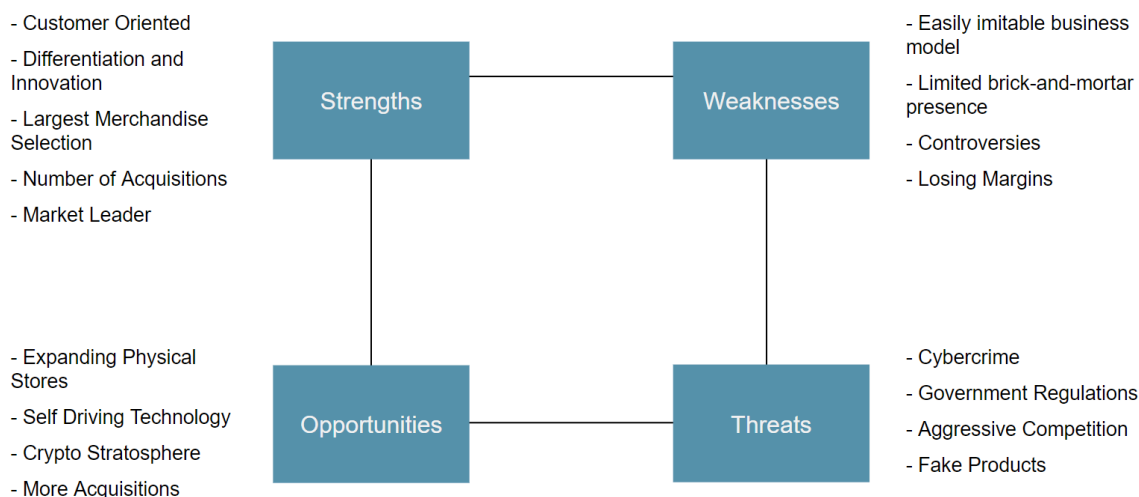
Amazon has competition in different sectors. Its biggest retail competitors are Alibaba, eBay, Walmart, Costco, and Target. Even though Alibaba stumps Amazon in terms of global sales, there is no doubt, Amazon's market size will continue to grow. Currently, the retailer ships products to more than 100 countries outside the United States. Amazon has a catalog of 12 million products across all categories and services. Factoring in the Amazon Marketplace, there are 353 million products available on Amazon. In the middle of the pandemic, AWS was one of the four largest public cloud providers with strong revenue growth at 29%. The rest were Alibaba (59%), Microsoft Azure (47%), and Google Cloud (43%). (TechRepublic, 2020)

There are several market drivers currently. Consumer demand is one aspect that is largely out of the control of individual brands selling on Amazon or other digital retail channels. Competitive intelligence, product availability, and channel & product control are also important things to consider. Pricing, deals, and coupons are also very fluctuating factors in Amazon's market. Many of the current obstacles in Amazon's market stem from the global pandemic and how it has affected the supply chain and product availability. Others center around the current market competition and availability.

Competitive Positioning

Amazon excels at positioning themselves in a competitive market with a unique business model aimed at combating current market challenges in their industry.

S.W.O.T Analysis



(Figure 3): Amazon.com, Inc.'s SWOT Analysis

III. ESG & Investment Risk

Sustainalytics' ESG Risk Ratings assess the degree to which a company's enterprise business value is at risk driven by environmental, social and governance issues. "The rating employs a two-dimensional framework that combines an assessment of a company's exposure

to industry-specific material ESG issues with an assessment of how well the company is managing those issues.”

Environmental

To start, they earned a 5.6 in their environmental risk score (*Yahoo! Finance*). In 2019, Amazon launched one of their major CSR programs, The Climate Pledge, urging companies to achieve net-zero annual carbon emissions by 2040. To further promote this initiative, Amazon committed \$2 billion in 2020 to help companies develop products and innovations that support and sustain a low carbon economy. To safeguard against labor and environmental violations, Amazon continues to conduct regular independent third-party assessments as well as in-house evaluations to ensure supply chain partners follow globally recognized standards and practices.

Social

In the next pillar, social, the company received a 14.8 social risk score. Reaffirming its commitment to place people and the environment first, Amazon continues to work toward building a transparent and equitable global supply chain. In 2020, Amazon expanded its company policies governing supply chain procedures and standards to include more requirements. Dedicated to cultivating and promoting a diverse and equality-driven workplace, Amazon actively seeks out candidates from schools and institutions serving ethnically diverse populations. Amazon’s CSR commitment to employees also includes a number of ongoing training and educational opportunities for both technical and non-technical positions. In 2019, a total of \$700 million was allocated for educational training for 100,000 employees over the next six years. The company has also launched numerous community outreach programs.

Governance

Lastly, the company received a 9.8 governance risk score. The governance aspect is broken into three main subcategories: management, shareholders, and CSR strategy. To start, they made their biggest improvement in CSR strategy, which is the implementation of environmental and economical implications, into the company's business decisions. This is most likely attributed to the major shift in the company's handling of sustainability, while maintaining a profitable business model.

The final ESG Risk Ratings scores are a measure of unmanaged risk on an absolute scale of 0-100, with a lower score signaling less unmanaged ESG Risk; to which Amazon received a 30 (63rd Percentile). On top of how the company performed in the traditional pillars of ESG, their falter came in the controversy rating. Amazon received a 3, significant controversy level - compared to their peers' average of 1.9.

Investment Risk

A majority of the investment risks come from COVID-19 and the current state of the supply chain. Other factors include international operations, competition, system interruption, and tax liabilities (due to third-party sellers). Amazon's international activities are significant to its revenue and profits. In certain international market segments, Amazon has little to no operating experience and may not benefit from any first-to-market advantages. Amazon experiences occasional system interruptions and delays that makes its website unavailable, which could potentially reduce its net sales and attractiveness of its products and services.

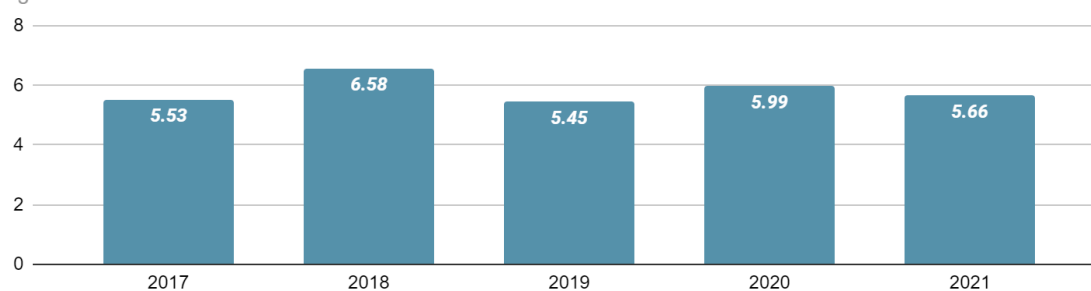
IV. Financial Analysis

Strong Altman Z-Score

AMZN has maintained its Altman Z-score above the 5.00 on an average between 2017-2022. Having a good Altman Z-Score will attract more investors towards investing in the company and also indicates that Amazon has less of a chance of going bankrupt.

Altman Z-Score

Avg for Last 5 Years



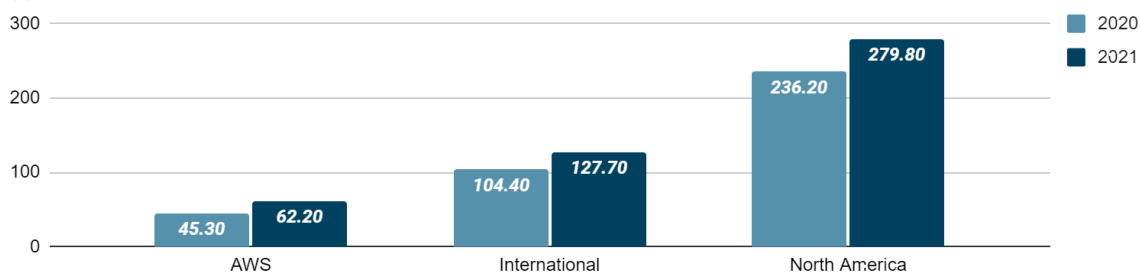
(Figure 4): Amazon.com, Inc.'s Altman Z-Score from the past 5 years.

Revenue in Different Segments & Locations

Unsurprisingly, a big part of Amazon's revenue comes from North America. Internationally, the company's revenue increased from \$104.4 billion in 2020 to \$127.7 in 2021 as Amazon Prime has become a huge success in some of the Asian and European markets.

Amazon Revenue Distribution

\$\$ in billions



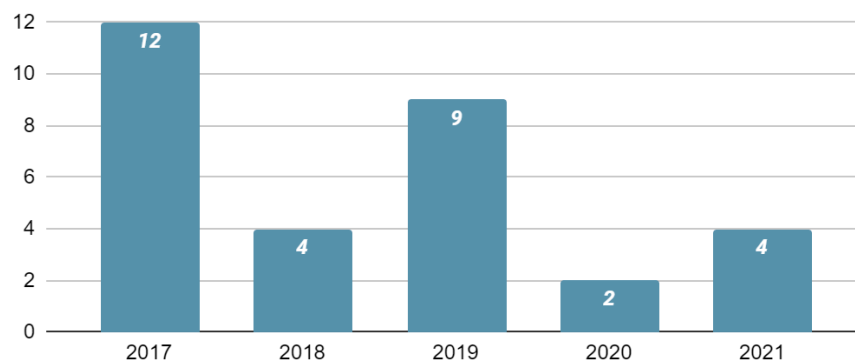
(Figure 5): Amazon.com, Inc.'s global revenue distribution.

Acquisitions and Cash Flow

It is clear that Amazon has a goal of acquiring more acquisitions, paying dividends and share repurchases. Amazon has used its cash strategy in acquiring business and changes the cash into acquisition. For the past 5 years the company has acquired numerous business and assets. This strategy has held their current market position. Following are some of the business acquisitions yearly.

Amazon Merger & Acquisition Activities

Last 5 Years (2017-2021)



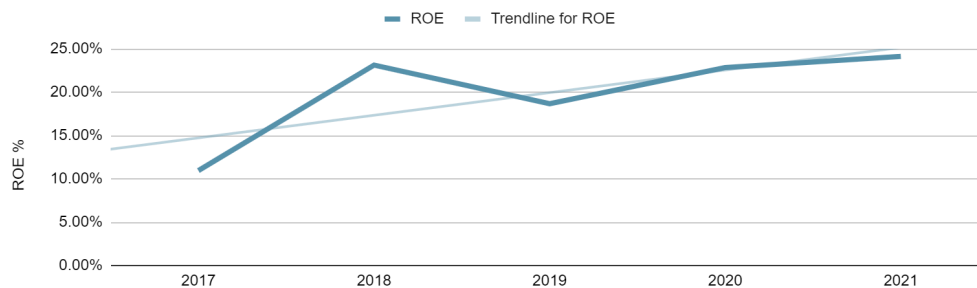
(Figure 6): M&As of Amazon from 2017 to 2021

Return on Equity

Amazon.com Inc. ROE improved from 2019 to 2020 and from 2020 to 2021 showing profitability to shareholders.

Return on Equity (ROE)

2017-2021

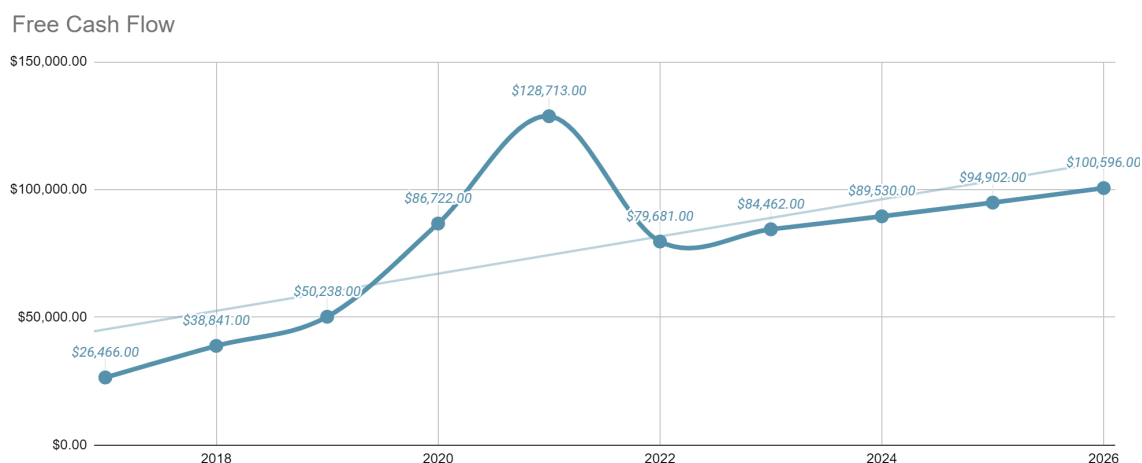


(Figure 7): Amazon.com, Inc. Profitability Ratio, Return on Equity.

V. Company Valuation

In order to achieve valuation for Amazon.com, Inc. we used the data provided in their 10-K. Retrieving their annual reports from 2017 to 2021, you can calculate the percent change for each year to forecast revenue. Using the average growth rate of 2017-2021 of 6.0%, and other considerations, a revenue of \$628,727.83 was estimated for 2026.

Free Cash Flow



(Figure 8): Amazon.com, Inc. projected free cash flow.

VI. Conclusion & Recommendation

Considering all of the above, and the calculated the target price for Amazon.com, Inc. (AMZN) to be \$179.72 per share. This results in a potential upside of 54.73% from the closing price of \$116.15 on 6/10/2022. From this upside, we would recommend an option to buy to investors. We found this valuation to be accurate using the discounted cashflow method of valuation.

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