

Amazon.com Inc - Financial and Strategic Analysis Review

Publication Date: May-2021

Reference Code: GDRT27249FSA

Company Snapshot

Key Information

Amazon.com Inc, Key Information	
Web Address	www.amazon.com/
Financial year-end	December
Number of Employees	1,271,000
NASD	AMZN
Source : GlobalData	

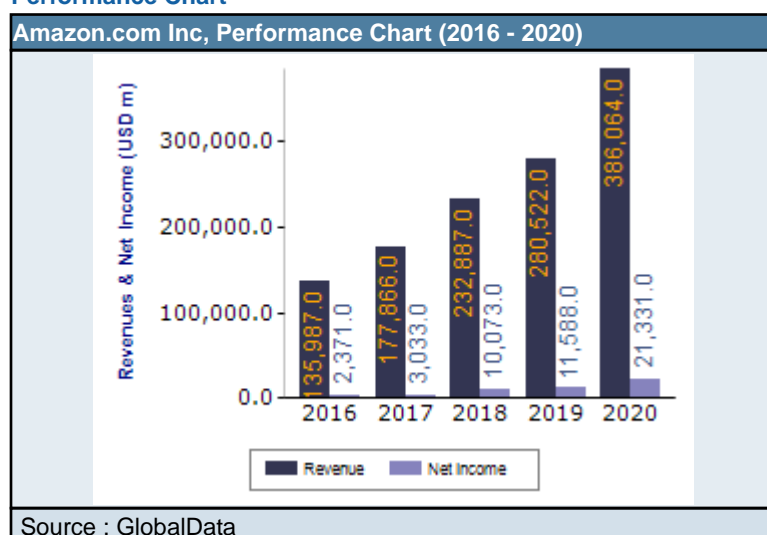
Key Ratios

Amazon.com Inc, Key Ratios	
P/E	77.82
EV/EBITDA	33.78
Return on Equity (%)	22.84
Debt/Equity	0.55
Operating profit margin (%)	5.93
Dividend Yield	NA
Note: Above ratios are based on share price as of 11-May-2021	
Source : GlobalData	

Share Data

Amazon.com Inc, Share Data	
Price (USD) as on 11-May-2021	3,223.91
EPS (USD)	41.83
Book value per share (USD)	185.69
Shares Outstanding (in million)	510
Source : GlobalData	

Performance Chart



Company Overview

Amazon.com Inc (Amazon) is an online retailer and web service provider. The company provides products such as apparel, auto and industrial items, beauty and health products, electronics, grocery, books, games, jewellery, kids and baby products, movies, music, sports goods, toys, tools and other related products. It also offers related support services, including home delivery and shipping, website hosting and other web related services. Amazon merchandises these products through company-owned online and physical platforms.

SWOT Analysis

Amazon.com Inc, SWOT Analysis	
Strengths	Weaknesses
Global Presence	Liquidity Position
Financial Performance	Legal Proceedings
Delivery and Logistics	
Opportunities	Threats
Focus on Fulfilment Centers	Increase in Shipping Costs
Global E-retail Market	Stringent Regulations
Partnership with BP and Engie	Intense Competition
Source : GlobalData	

Financial Performance

The company reported revenues of (US Dollars) US\$386,064 million for the fiscal year ended December 2020 (FY2020), an increase of 37.6% over FY2019. In FY2020, the company's operating margin was 5.9%, compared to an operating margin of 5.2% in FY2019. In FY2020, the company recorded a net margin of 5.5%, compared to a net margin of 4.1% in FY2019.

The company reported revenues of US\$108,518 million for the first quarter ended March 2021, a decrease of 13.6% over the previous quarter.

Key Information

Amazon.com Inc, Key Information			
Corporate Address	410 Terry Ave N, SEATTLE, WA, 98109-5210, United States	Ticker Symbol, Stock Exchange	AMZN [NASDAQ]
Telephone	+1 206 2661000	No. of Employees	1,271,000
Fax	+1 302 6365454	Fiscal Year End	December
URL	www.amazon.com/	Revenue (in USD Million)	386,064.0
Industry	Consumer Goods, Energy and Utilities, Financial Services, Industrial Goods and Machinery, Retail, Wholesale & Foodservice, Telecoms & IT		
Locations	Australia, Brazil, Canada, China, Costa Rica, Czech Republic, Denmark, France, Germany, India, Ireland, Israel, Italy, Japan, Luxembourg, Mexico, Netherlands, Spain, Turkey, United Arab Emirates, United Kingdom, United States		
Source : GlobalData			

Company Overview

Amazon.com Inc (Amazon) is an online retailer and web service provider. The company provides products such as apparel, auto and industrial items, beauty and health products, electronics, grocery, books, games, jewellery, kids and baby products, movies, music, sports goods, toys, tools and other related products. It also offers related support services, including home delivery and shipping, website hosting and other web related services. Amazon merchandises these products through company-owned online and physical platforms. These platforms are also used by various third parties for selling their goods. Besides, the company manufactures and commercializes various electric devices such as Kindle e-readers, fire tablets, fire TVs, echo, alexa, Ring and other devices. It also allows authors, musicians, filmmakers, and others to publish and sell content. Amazon is headquartered in Seattle, Washington, the US.

Amazon.com Inc - SWOT Analysis

SWOT Analysis - Overview

Amazon.com Inc (Amazon) is an online retailer and web service provider. Financial Performance, global presence, customer-centric business, and delivery and logistics are the company's major strengths, even as low liquidity and legal proceedings remains a cause for concern. Growth momentum in global e-retail market, cloud services, focus on Project Kuiper, partnership with BP and Engie and focus on fulfillment centers, are likely to offer growth opportunities to the company. However, intense competition, foreign exchange risk, increase in shipping costs, and stringent regulations could affect its business operations.

Amazon.com Inc - Strengths

Strength - Global Presence

Amazon is one of the leading retailers in the world that pioneered the e-Commerce space. The company has retail operations across the world, where it sells products ranging from electronics, home appliances, gardening equipment, toys, apparel and accessories, food and grocery items, health and beauty products, automotive and industrial equipment, accessories, audio and video content and electronic equipment. The company operates corporate offices in North America and other countries. As of December 2020, it had 411.7 million sq. ft. of leased space and 12.6 million sq. ft. of owned space to carry out its operations. Amazon operates 611 physical stores in North America and seven in overseas markets.

Strength - Financial Performance

Amazon reported revenue of US\$386,064 million in FY2020, as compared to US\$280,522 million in FY2019, which showed an annual growth of 37.6%. Increase in revenue was due to impact of changes in foreign currency exchange rates and also due to growth in segment revenues. International segment revenue increased by 39.7% followed by North America segment (38.4%), and AWS (29.5%). In FY2020, the company generated an operating income of US\$22,899 million as compared to US\$14,541 million in FY2019 and reported an operating margin of 5.9% as compared to an operating margin of 5.2% in FY2019. Similarly, the company reported a net margin of 5.5% as compared to a net margin of 4.1% in FY2019.

Strength - Delivery and Logistics

Wide delivery and logistic services enable the company to effectively handle fluctuations in demand. The company has wide delivery and logistic services that help integrate its operations and serve the growing needs of its customers efficiently. The company delivers through various ways such as Amazon fulfilment centre, Amazon air, last mile delivery, prime air, and Amazon scout. Amazon operates fulfilment center globally, which are made up of state-of-the-art technology, various building sizes and types for supporting processing orders. These are categorized as sortable fulfillment center, non-sortable fulfillment center, sortation centres, receive centres, speciality and delivery stations. Amazon Air delivers products through planes in one day to its prime members. The last mile delivery is to deliver the products at the customer doorstep, which include delivery to homes, businesses, Amazon Lockers, and even cars across the world. It is powered by hundreds of small businesses. Through Prime Air, the company delivers in 30 minutes or less than that through drones. The Amazon Scout delivers packages through autonomous delivery devices, which are of small cooler size. The company initially started using this for delivering packages to customers in Snohomish County, Washington, the US.

Amazon.com Inc - Weaknesses

Weakness - Liquidity Position

Low liquidity is an indication of the company's decreasing ease in funding its day-to-day operations and growth prospects. The company's current ratio was 1.0 at the end of FY2020. The below average current ratio indicates that the company may find it difficult in meeting its payout obligations. The decrease in its current ratio was due to 23.9% increase in current liabilities, which increased from US\$87,812 million in FY2019 to US\$126,385 million in FY2020, due to increase in accounts payable and accrued expenses.

Weakness - Legal Proceedings

The company is a defendant in a number of legal proceedings. In FY2020, a number of complaints were filed against the company by third-party sellers in Amazon's stores. They alleged among other things, price fixing arrangements between Amazon.com Inc. and third-party sellers in Amazon's stores. In April 2020, class action complaints were filed in the Superior Court of Quebec, Division of Montreal, the Ontario Superior Court of Justice, and the Federal Court of Canada against the company and related entities. In March 2020, Frame-Wilson v. Amazon.com Inc was filed in the US District Court for the Western District of Washington. These complaints allege several distinct purported classes, including consumers who purchased a product through the company's stores and consumers who purchased a product offered by Amazon through another e-commerce retailer. The complaints seek billions of dollars of alleged actual damages, punitive damages, treble damages, and injunctive relief. The company dispute the allegations of wrongdoing and intend to defend itself vigorously in these matters.

Amazon.com Inc - Opportunities

Opportunity - Focus on Fulfilment Centers

New fulfillment centers help the company serve the diverse requirements of its customers, which allows it to build long-term relationships with existing customers and enables it to attract new and potential customers. It could also enable the company to meet the diversified needs of its consumers, which provides it an edge over its competitors. In February 2021, the company announced its plans to open fulfillment center in the Alcoa, Tennessee, the US. The new center would help the company to serve its customers with improved delivery options. In December 2020, the company announced its plans to open fulfillment centers in the US across various states such as one in Carencro, Louisiana; Sioux Falls, South Dakota; North Little Rock, Arkansas; Oklahoma City; Oklahoma; and two in San Antonio, Texas. During the same month the company announced its plans to open an AWS Asia Pacific (Melbourne) Region, a second infrastructure region in Australia. It consists of three Availability Zones (AZs) at launch. In November 2020, Amazon plans to launch a new 700,000 square feet state of art fulfillment center in Madison County, Illinois, the US. During the same month, the company announced its plans to open an AWS Asia Region, second infrastructure region in India by mid-2022. It will consist of three Availability Zones at launch. During the same month, the company also announced to launch its first fulfillment center in Republic, Missouri, the US in 2021. In October 2020, the company announced to launch its first fulfillment center in Fargo, North Dakota; Papillion, Nebraska; Waco, Texas; and two in Kansas, the US. These new centers would help the company to expand its presence in the US.

Opportunity - Global E-retail Market

The company stands to benefit from the growing online retailing, which provides consumers the convenience of shopping from home. With the increase in interactive methods and limitless content, the retail e-commerce is growing at a faster rate. Increasing adoption of internet, user-friendly interface of web portals, enhanced discounts and offers, changing consumer patterns and purchasing power are aiding the growth of e-retail market. According to in-house research, the global online retail market is expected to grow at a CAGR of 13.4% to reach US\$1,740.8 billion by 2022. The growing consumers' engagement in internet and increasing acceptance of mobile internet are leading to growth in online retail market across the world. Category wise, electrical and electronics accounted for 32% of the total online sales globally, followed by apparel retailing with 23.7%, and food and grocery retailing with 15.2%. Region wise, Asia-Pacific accounted for 37.6% of the global online sales, followed by the US with 32% and Europe with 25.3%. The company focuses on entering online pharmacy and e-health markets, owing to the growth in online pharmacy business. In FY2020, Amazon generated a revenue of US\$197,346 million which accounted for 51.4% of the company's revenue. In line with this, in January 2021, Amazon India signed a memorandum of understanding with the government of Karnataka to help drive e-commerce exports from the state.

Opportunity - Partnership with BP and Engie

The company forged new strategic partnerships recently that could help in driving its future growth. Strategic agreements could help the company in expanding its product portfolio and improving top line performance. In December 2020, the company entered into partnership with BP Plc. Under the partnership, BP will supply additional renewable energy to support Amazon's operations and Amazon Web Services. In the same month, the company signed 650Mw of corporate power purchase agreements with French electric utility Engie SA, under which Engie will sell energy generated by its wind and solar facilities in the US, Italy and France to Amazon.

Opportunity - Focus on Cloud Services

The company focuses on strengthening its AWS service portfolio, harnessing emerging technologies such as cloud and AI. It offers AI enabled echo device with alexa voice-assistant that enables users to search content or operate smart home devices through speech. In December 2020, Amazon Web Services announced Amazon DevOps Guru. It applies machine learning to provide fully managed operations service to automatically collect and analyse data like application metrics, events, logs, and traces to identify behaviors which deviate from normal operating patterns. During the same month, announced three new analytics capabilities to enhance the performance of Amazon Redshift data warehouses. These make customers to move and combine data across data stores. In the same month the company announced five industrial machine learning services namely, Amazon Monitron, the AWS Panorama Appliance, Amazon Lookout for Equipment, Amazon Lookout for Vision and the AWS Panorama SDK. They help manufacturing and industrial customers embed intelligence in production processes to improve quality control, operational efficiency, security, and workplace safety. The company announced four storage innovation in December 2020. They are Amazon EBS io2 Block Express volumes, Amazon EBS Gp3 volumes, Amazon S3 Intelligent-Tiering automatic data archiving, and Amazon S3 Replication (multi-destination). They deliver added resiliency, storage performance, and value to its customers. In November 2020, the company's subsidiary, Amazon Web Services was selected by Zoom Video Communications as its preferred cloud provider to grow its core video meeting platform and innovate new customer experiences. In October 2020, the company introduced eero. It is a new premium software and hardware offering which is specifically designed to help internet service providers (ISPs) meet customers' increasing demands for exceptional home wifi.

Opportunity - Focus on Project Kuiper

Amazon strives to focus on new strategic initiatives that are likely to expand its business and geographic presence. To this end, in July 2020, the company received approval for Project Kuiper from the US Federal Communications Commission (FCC) to deploy and operate its constellation of 3,236 satellites. Amazon plans to invest more than US\$10 billion in the new project that aims to build low earth orbit satellite constellation to provide affordable broadband service to underserved and unserved communities worldwide. The project also helps Amazon to expand internet access to communities and households and create new jobs and infrastructure in the US. Project Kuiper aims to serve resident households, apart from academic institutions, hospitals, and other organizations without availability of reliable broadband network.

Amazon.com Inc - Threats

Threat - Increase in Shipping Costs

Amazon's shipping costs increased 61.2% YoY to US\$61.1 billion in FY2020 from US\$37.9 billion in FY2019. The company expects its cost of shipping to continue to increase due to the lucrative shipping offers. The increase in shipping costs was due to the utilization of more expensive shipping methods to make on-time delivery and offering additional services. In order to minimize its shipping costs, the company requires optimizing its fulfillment network, negotiating favorable terms with suppliers, achieving higher sales, and improving operating efficiency. The company's business model revolves around offering products at low prices to its customers and any attempt to transfer costs associated with shipping could hamper its future success.

Threat - Stringent Regulations

Amazon's business is subject to various laws and regulations related to the governance of internet, e-commerce, physical, omni-channel retail and electronic devices. Its operations are also in compliance with the rules and regulations related to taxation, data protection and privacy, pricing, copyrights, content, distribution, transportation, electronic device certification, mobile communications, electronic waste, environmental, energy consumption, competition, electronic contracts and other communications, consumer protection, trade and protectionist measures, employment, web services, and the provision of online payment services. The company's international operations are also subject to foreign and local laws and regulations. In India and China, the operations of Amazon and its subsidiaries are constrained by rules and regulations such as operation of and foreign investment in IT infrastructure, internet, retail, data centers, delivery, and other sectors, sale of media and other solutions, and internet content. In China, the company's website is being operated by PRC companies, which are owned indirectly by PRC nationals either wholly or partially to meet the local regulatory licensing and ownership requirements. Non-compliance and tightening of these regulations could affect its financial performance.

Threat - Intense Competition

Amazon operates in a highly competitive online retailing market. It competes with other online e-commerce and mobile e-commerce sites, publishers, media companies and companies in designing, manufacturing, and marketing of digital media devices. The factors that determine the competition in the industry include price, selection, convenience, quality, speed, and reliability of its services and tools. The major competitors of the company in retail sector include eBay Inc, Books-A-Million Inc, Barnes & Noble Inc, Walmart, Costco and Tesco Plc. In video publishing, it competes with Netflix Inc and Time Warner. The company also faces competition from Alphabet, Oracle and Salesforce in cloud computing and web services category. Some of these competitors have longer operating histories, technical, marketing, distribution and support resources; greater brand recognition and higher financial capability than the company, which could constrain the creation of innovative products and business expansion. In October 2020, Netflix Inc entered into a partnership with Microsoft to create new data science learning modules.

Threat - Foreign Exchange Risks

The company operates in many parts of the world and is exposed to fluctuations in foreign exchange rates. The company reports financials in the US dollar and its revenue is exposed to the volatility of the US dollar against other functional currencies such as the Japanese Yen, Canadian Dollar and Euro. In FY2020, Amazon generated 32% of its revenue from outside the US. The major elements exposed to exchange rate risks include the company's investments in overseas subsidiaries and affiliates and monetary assets and liabilities arising from business transactions in foreign currencies. In FY2020, the company reported a gain of US\$561 million from foreign currency translation adjustments as compared to a loss of US\$30 million in FY2019. To minimize risks from currency fluctuations, the company could involve in foreign exchange hedging by entering into foreign exchange forward contracts. However, there could be no assurance that such hedging would limit the impact of movements in exchange rates on the company's results of operations.

NOTE: The above strategic analysis is based on in-house research and reflects the publishers opinion only