

Amazon.com Inc - Financial and Strategic Analysis Review

Publication Date: Apr-2023

Reference Code: GDRT27249FSA

Company Snapshot

Key Information

Amazon.com Inc, Key Information	
Web Address	www.amazon.com
Financial year-end	December
Number of Employees	15,41,000
NASD	AMZN
Source : GlobalData	

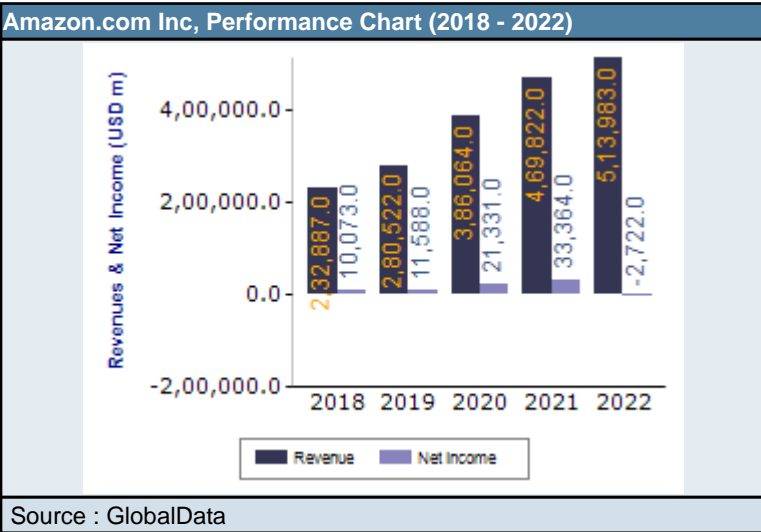
Key Ratios

Amazon.com Inc, Key Ratios	
P/E	NA
EV/EBITDA	29.58
Return on Equity (%)	--1.8
Debt/Equity	0.61
Operating profit margin (%)	2.38
Dividend Yield	0
Note: Above ratios are based on share price as of 20-Apr-2023	
Source : GlobalData	

Share Data

Amazon.com Inc, Share Data	
Price (USD) as on 20-Apr-2023	103.81
EPS (USD)	--0.2
Book value per share (USD)	14.26
Shares Outstanding (in million)	10,189
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, games, jewelry, kids and baby products, music, sports goods, toys, and tools. It also offers related support services including home delivery and shipping, cloud web 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	Inventory Turnover Ratio
Delivery and Logistics	
Cash Position	
Opportunities	Threats
Global E-retail Market	Increase in Shipping Cost
Focus on Cloud Services	Stringent Regulations
Launch of New Products	Intense Competition
Source : GlobalData	

Financial Performance

The company reported revenues of (US Dollars) US\$513,983 million for the fiscal year ended December 2022 (FY2022), an increase of 9.4% over FY2021. In FY2022, the company's operating margin was 2.4%, compared to an operating margin of 5.3% in FY2021. The net loss of the company was US\$2,722 million in FY2022, compared to a net profit of US\$33,364 million in FY2021.

## Key Information

Amazon.com Inc, Key Information			
Corporate Address	410 Terry Avenue North, Seattle, WA, 98109, United States	Ticker Symbol, Stock Exchange	AMZN [NASDAQ]
Telephone	+1 206 2661000	No. of Employees	15,41,000
Fax		Fiscal Year End	December
URL	www.amazon.com	Revenue (in USD Million)	₹ 5,13,983.0
Industry	Consumer Goods, Energy and Utilities, Financial Services, Retail, Wholesale & Foodservice, Technology, Media & Telecom		
Locations	Australia, Belgium, Brazil, Canada, China, Costa Rica, Czech Republic, Denmark, Egypt, Finland, France, Germany, India, Ireland, Israel, Italy, Japan, Luxembourg, Mexico, Netherlands, Singapore, 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, games, jewelry, kids and baby products, music, sports goods, toys, and tools. It also offers related support services including home delivery and shipping, cloud web hosting and other web related services. Amazon merchandises these products through company-owned online and physical platforms. It also manufactures and commercializes various electric devices such as Kindle e-readers, fire tablets, fire TVs, echo, Alexa and other devices. The company 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. Delivery and logistics, global presence, cash position and revenue growth are the company's major strengths, even as inventory turnover ratio remains a cause for concern. Focus on cloud services, launch of new products and the global e-retail market are likely to offer growth opportunities to the company. However, seasonality of business, stringent regulations, increase in shipping cost, and intense competition could affect its business operations.

### Amazon.com Inc - Strengths

#### Strength - Global Presence

Amazon is one of the leading retailers in the world that pioneered e-Commerce. 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. A wide geographical presence combined with a diversified customer base provides a competitive advantage to the company. The company operates corporate offices in North America and other countries. As of December 2022, it had 617.5 million sq. ft. of leased space and 43.9 million sq. ft. of owned space to carry out its operations. Amazon operates 611 physical stores in North America and 32 stores in overseas markets. The company classifies its geographic operations into five regions. In FY2022, the US region accounted for 69.3% of the company's revenue, followed by Germany (6.5%), the UK (5.9%), Japan (4.7%) and Rest of World (13.6%).

#### Strength - Delivery and Logistics

Extensive delivery and logistic services enable the company to effectively handle fluctuations in demand. The company has extensive delivery and logistic services, which help integrate its operations and meet the growing needs of its customers efficiently. The company delivers goods in various ways such as Amazon fulfilment centre, Amazon air, last mile delivery, prime air, and Amazon scout. Amazon operates fulfilment centres globally, which are made up of state-of-the-art technology, buildings of various sizes and types for aiding the processing orders. These are categorized as sortable fulfilment centres, non-sortable fulfilment centres, sortation centres, receive centres, specialty and delivery stations. Amazon Air delivers products through planes in one day to its prime members. The last mile delivery is to deliver products at the customer doorstep, which includes 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 lesser than that through drones. The Amazon Scout delivers packages through autonomous delivery devices, which are of the size of a small cooler.

#### Strength - Cash Position

Increase in cash position enables the company to meet its short-term obligations. Its cash and cash equivalents increased from US\$36,220 million in FY2021 to US\$53,888 million in FY2022, which shows an increase of 48.8%. The increase was due to the US\$46,752 million cash generated from operating activities. The company's assets also increased by 10% annually at the end of FY2022. The increase in assets was due to increased inventories and tax receivable. Therefore, strong cash position provides the company an advantage, while funding any potential opportunity arising in the market.

#### Strength - Revenue Growth

Growth in revenue improves investors' confidence in the company and enables it to pursue expansion plans. In FY2022, the company generated revenue of US\$513,983 million as against US\$469,822 million in FY2021, with an annual growth of 9.4% over previous year. Such growth in annual revenue was due to increase of 28.8% in net sales of AWS segment and 12.9% of North America. Revenue growth in AWS segment was due to increase in customer usage and in North America was due to an increase in unit sales including sales from third-party sellers, subscription services and advertising sales.

### Amazon.com Inc - Weaknesses

#### Weakness - Inventory Turnover Ratio

Amazon reported weak inventory turnover ratio during the review year. The decline in turnover ratio and higher inventory turnover days signify that the company incurs high inventory carrying costs, which affect its operating performance. In FY2022, Amazon reported inventory turnover ratio of 8.6. It reported lower inventory turnover ratio than two of its major competitors Alibaba Group Holding Ltd (Alibaba Group) and Tesco Plc (Tesco) which reported inventory turnover ratios of 18.6 and 25.7, respectively, in FY2022. Lower inventory turnover than competitors indicates that the company takes more days to clear its inventory than its competitors. With the given turnover ratio, Amazon takes 42 days to sell its inventory as compared to 19 days by Alibaba Group and 14 days by Tesco.

**Amazon.com Inc - Opportunities****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 increase in interactive methods and limitless content, retail e-commerce is growing at a faster rate. The increasing adoption of internet, user-friendly interface of web portals, enhanced discounts and offers, changing consumer patterns and purchasing power are aiding growth of the e-retail market. According to in-house research, the global online retail market is expected to reach US\$2,796.4 billion by 2025. The global online retail business is expanding as a result of consumers' increasing online involvement and rising acceptance of mobile internet. Category wise, electrical and electronics accounted for 29.8% of the total online sales globally, followed by food and grocery retail (21.3%), apparel retail (19.5%), home and garden products (11.2%), furniture and floor coverings (5.6%), jewelry, watches and accessories (4%) and others (8.6%). Region wise, Asia-Pacific accounted for 42.8% of the global online sales in 2020, followed by the US (31.2%), Europe (21.7%), the Middle East (0.7%) and Rest of the World (3.6%). The company sells merchandise through various online retail websites such as amazon.com, amazon.in, amazon.com.au, amazon.com.br, amazon.ca, amazon.cn, amazon.eg, amazon.fr, amazon.de, amazon.it, amazon.co.jp, amazon.com.mx, and amazon.co.uk.

**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 February 2023, the company's subsidiary Amazon Web Services, Inc announced its strategic collaboration agreement with Bytes Technology Group (Bytes), to address the demand for cloud migration, modernization and cloud security services in the UK and Ireland regions. Under the collaboration agreement, Bytes to provide a full value proposition to shared clients and offers one-stop migration factory for Amazon customers to speed up the AWS cloud services. In January 2023, the company's subsidiary Amazon Web Services, Inc entered into an agreement with Zurich Insurance Group under which Zurich will use AWS's reliable global infrastructure, advanced analytics, and machine learning technologies to deliver new digital customer experiences. Under this agreement, Zurich will move 1,000 applications including core insurance and SAP workloads to AWS by 2025. In December 2022, the company's subsidiary Amazon Web Services, Inc was selected by Yahoo as its preferred public cloud provider for its advertising technology business Yahoo Ad Tech. Under the agreement, Yahoo would decrease the cost of its IT infrastructure, revamp its advertising division's processes, and provide more specialized and immersive solutions to help companies engage with target audiences.

**Opportunity - Launch of New Products**

The launch of new and improved products at regular intervals could help Amazon retain and attract new customers. In February 2023, the company and Martha Stewart brand launched The World of Martha in Amazon stores. This would make Amazon the retail destination with broadest variety of Martha Stewart's home and lifestyle essentials. Under this brand store, the company would add a new collection of items to Martha's World to help to expand its product offerings. In January 2023, the company launched air cargo service in India, Amazon Air. The service would improve the company's transportation system and enable customers to receive orders quickly. In the same month, the company launched RxPass, a new prescription drug subscription for Prime members. With RxPass, Prime members would get all of their qualifying prescription drugs for a single, low monthly fee and get free delivery. The monthly subscription has no additional cost or markup. Such product launches are expected to serve the changing needs of Amazon's customers and in turn attract a new customer base.

**Amazon.com Inc - Threats****Threat - Increase in Shipping Cost**

Amazon's shipping cost increased 25.5% YoY to US\$83.5 billion in FY2022 from US\$76.7 billion in FY2021. The company expects its shipping cost to continue increasing due to lucrative shipping offers. The increase in shipping cost was due to utilization of more expensive shipping methods to make on-time delivery and offer additional services. The business needs to maximize its fulfilment network, negotiate advantageous terms with suppliers, increase sales, and enhance operational effectiveness in order to reduce its shipping expenses. The company's business model revolves around offering products at low prices to its customers and any attempt to transfer cost associated with shipping could hamper its business.

**Threat - Stringent Regulations**

Amazon's business operations are 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, 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 digital media devices. The factors that determine competition in the industry include price, selection, convenience, quality, speed, and reliability of its services and tools. Major competitors of the company in the retail sector include eBay Inc, Barnes & Noble Inc, Walmart Inc, Alibaba Group Holding Ltd, Costco Wholesale Corp and Tesco Plc. In video publishing, it competes with Netflix Inc. The company also faces competition from Alphabet, Oracle and Salesforce in the 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 hamper its ability to develop innovative products and undertake business expansion. In January 2023, Netflix Inc entered into a partnership with Babel Label Co Ltd for the production of live-action films and series. In the same month, Walmart Inc expanded its retail partnership with SunButter, to include SunButter chocolate sunflower butter in 800 Walmart stores and on Walmart.com website.

#### Threat - Seasonality of Business

Seasonal changes could affect the growth of the company. To reduce business risks, the company stocks or restocks popular products in sufficient quantities to meet the demand from customers. Overstocking of products is essential to maintain sufficient inventory and incur commitment cost that could reduce profitability. The net shipping cost of the company could increase due to complementary upgrades, split-shipments, and additional long-zone shipments necessary to ensure timely delivery for the holiday season. The holiday season increases the number of customers accessing the company's site within a short period of time. Due to increase in the number of customers, the company's system could be subject to interruptions that make its websites unavailable or prevent the company from efficiently fulfilling orders. Such interruption could reduce the sale of its goods and the demand for its products and services. The company would not be able to adequately staff its fulfilment network and customer service centers during such peak periods.

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