An Analytical Perspective of the Valuation of Amazon.com, Inc. (AMZN)

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Abstract

This research paper focuses on an analytical perspective of the valuation of Amazon.com.Inc. The company is valued on the basis of some financial parameters. In the present time business has become internationally competitive; hence the continued existence of an enterprise depends upon the efficiency and accuracy, it is necessary to evaluate the financial appearance of the business to know the position in the market and how this company can improve further in the future by knowing its shortcomings.

Primary objective of any financial analysis of financial statements is to inform business performance to its stakeholders, as performance of the business affect the interest of stakeholders, i.e. Shareholders, debenture holders, Banks, Employees, government, customer and creditors etc. As per the Companies Act, every company must disclose its financial statements at the end of every financial year. But only data of one year, without any comparison with the previous year's related information may mislead the investor and other stakeholders, Hence a trend analysis of profitability and liquidity is very much essential. Two major factors are analyzed and interpreted in this paper along with associated parameters of performance of the Amazon Inc.

(1) Profitability

(2) Liquidity

(3) Activity

(4) Efficiency

Study has been done on the basis of secondary data collected and compiled from the annual reports, magazines, books and online resources.

Key words: - AMZN, Liquidity, Profitability, Performance Ratios, Ratio Analysis

Introduction

It is a basic that shareholder value will create healthier companies and this will in turn, lead stronger economies, higher standard of living and more career and business opportunities. The main and basic objective in corporate finance is the maximization of firm's value. The value of a firm is directly related to decisions and the projects it takes, and the way of financing it and the type of its dividend policy.

Need of Valuation

Valuation is considered as the central focus in fundamental analysis. Valuation plays very important role in many areas of finance in corporate finance, in merger & acquisition and in portfolio management.

The following parameters are utilized for the study:-

Operating Cash Flow Per Share, Book Value Per Share, ROE, ROA, ROI, Ratio Analysis for Liquidity, Profitability, Efficiency and Leverage

☐   The cash flow represents the actual economic benefits generated by the assets.

☐   The study also examines the liquidity, profitability, efficiency and solvency ratios to examine the financial aspects.

☐   Liquidity ratio measure firm's capacity to pay-off its short term debts on a particular point of time.

☐   Profitability Ratio measure firm's overall performance end business operation's effectiveness during a financial period.

☐   Efficiency ratios or Activity ratios are employed to evaluate the efficiency, for managing and utilizing its assets.

☐   Leverage ratios also helpful for the understanding of the long-term financial position of the firm.

Research objectives

1. To evaluate the financial aspects of Amazon by taking various financial indicators
2. To suggests some measures on the basis of the valuation of the financial aspects.

Research Methodology:

Data Sample

As Amazon is a big giant in the e-commerce industry and almost every changes in the e-commerce environment is majorly effect the performance of Amazon, Similarly, changes in the Amazon's business environment also affect the e-commerce industry. Hence one sampled unit Amazon from the e-commerce industry has been taken into study from the e-commerce industry for the financial analysis.

Data Design

Amazon is pioneer in its field, on the basis of the market capitalization data has been arranged for the study.

Data Source

Only secondary data has been used for the study and it has been taken from the macrotrends.com

Data Period

Data from the year 2011-2016 have been taken into study for the analysis of the sampled unit.

Tools & Techniques

Financial parameters like Ratio analysis has been used into the study for the detailed investigation.

Limitations of the study

1. Only secondary data has been used into the study.

2. Whatever the limitations the secondary data exits, the study will also suffer with the same.

3. Time period of 6 years have been taken into study it could have been more than that also.

INDUSTRY & COMPANY PROFILE

INDUSTRY-E COMMERCE

E-commerce is the activity of buying and selling the goods or services over the internet. Electronic commerce draws on technologies such as mobile commerce, electronic funds transfer, supply chain management, internet marketing, online transaction processing, electronic data interchange, inventory data management system and automated data collection system.on

AMAZON.COM, INC.-Parent Company

Amazon.com is a globally recognized American company, which is based in seattle, Washington. The main focus is on e-commerce business along with cloud computing, artificial Intelligence (AI) and digital streaming. It is one of the top five US based company in the world. It is known as the "world's most powerful and influential brand".

Amazon is founded by Jeff Bezos in July 1994 . Primarily it was started as a online plateform for the availability of books, later on it expended its business to sell electronics, software, toys, foods, video games, jewelry, etc. Now it make available almost every household items of routine life. Wallmart is an international competitor of Amazon. But on the basis of market share and capitalization, Amazon is much ahead of Wallmart.

On its expansion, Amazon has launched Amazon Web Services (AWS) in 2002. Which make availability of internet traffic patterns, data mining, website popularity report, and other data based information to the IT based marketing companies and other clients.

Amazon India

Amazon India Launched its operations in 2013.Amazon India is a subsidiary of US based e-commerce giant Amazon Inc. Primary competition for the Indian e-commerce market was between Amazon India and Flipkart only.

In India the popular advertisement of Amazon claiming it to be "APNI DUKAAN"

turned out to be successful in grabbing million of its customers.

In India Amazon has acquired a payment company named Emvantage Payments Pvt. Ltd. In 2016, its provides services similar to Paypal and has a platform that enabled online merhcants to accept debit and credit cards.

Amazon in

Amazon.in is an Indian subsidiary of Amazon.Inc. which primarily deals with the Indian sellers and buyer. However consumer can buy from any of the national and foreign website of the Amazon.

Results and Interpretation

Table 1:Data Table for the Liquidity, Profitability, Efficiency and Leverage

SCORE	2011	2012	2013	2014	2015	2016
Liquidity	1.17	1.12	1.07	1.11	1.05	1.04
Profitability	25,54	25.79	28.58	29.41	35.67	39.90
Efficiency	0.003	0.37	0.32	0.76	0.61	0.39
Activity	21.83	25.49	24.77	25.04	27.56	25.63
TOTAL	64.82	52.77	54.74	56.32	64.89	66.96

Table 2: Data Table for the Different Parameters

PARAMETERS	2011	2012	2013	2014	2015	2016
Operating Cash Flow Per Share	0.80	0.76	2.54	3.03	1.70	10.30
Book Value Per Share	17.04	18.04	21.23	23.09	57.25	40.42
Return on Equity	8.13	-0.47	2.81	-2.24	10.94	12.29
Return on Asset	2.49	-0.11	0.68	-0.44	2.30	2.84
Return on Investment	7.87	-0.34	2.11	-1.2	5.78	8.78

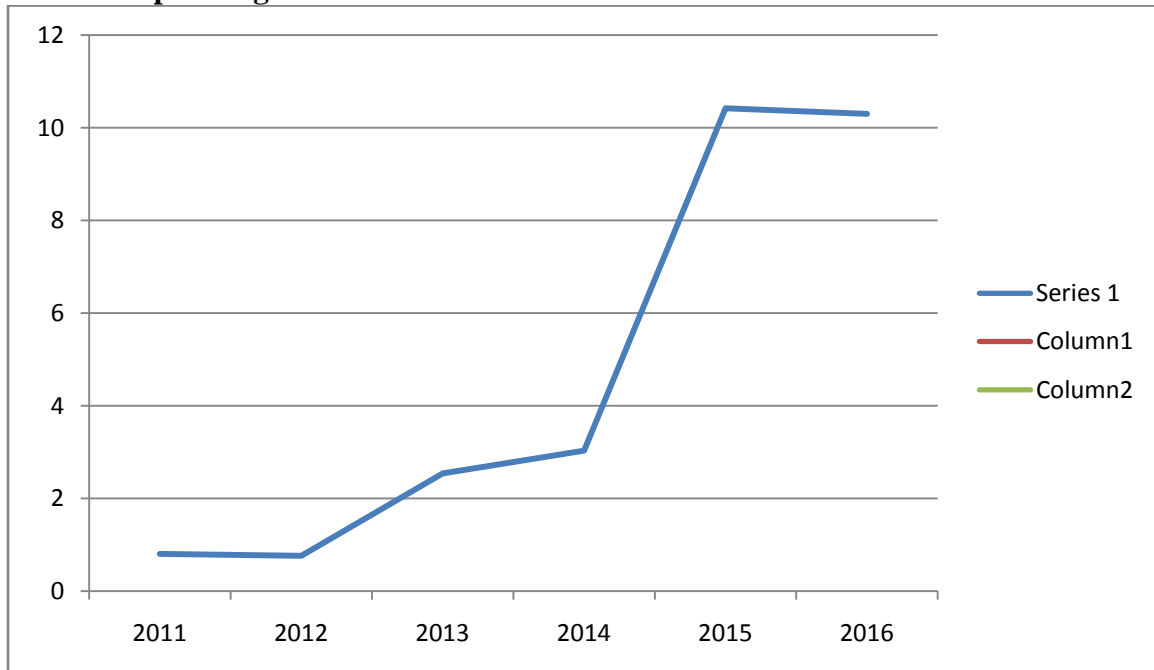**Chart 1: Operating Cash Flow Per Share.**
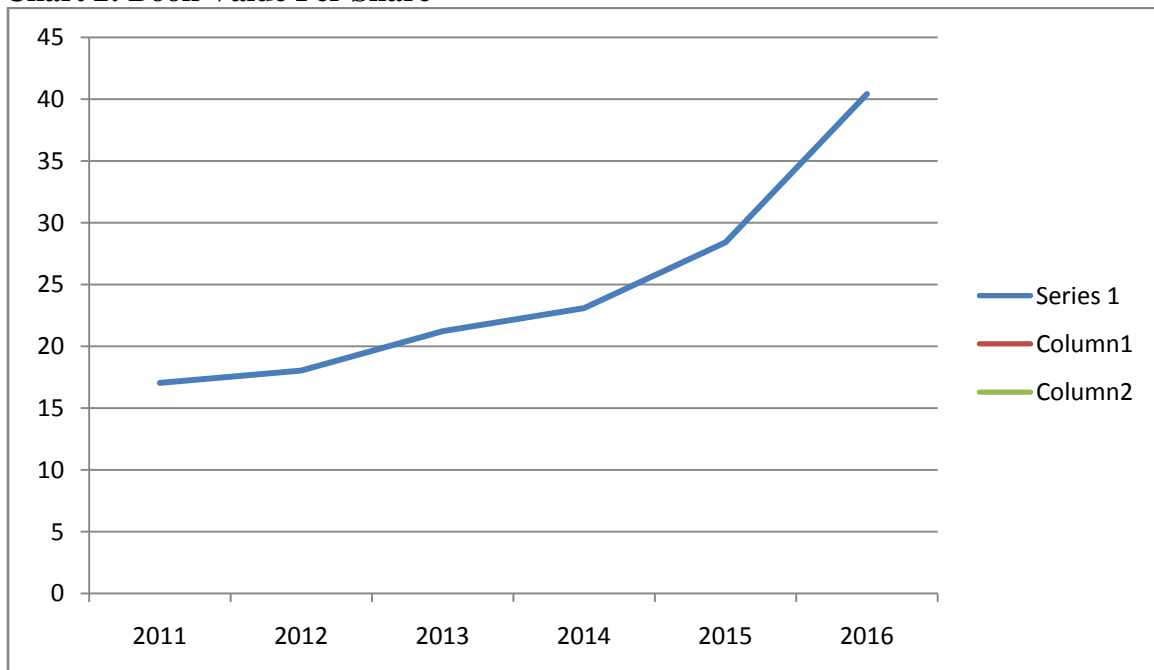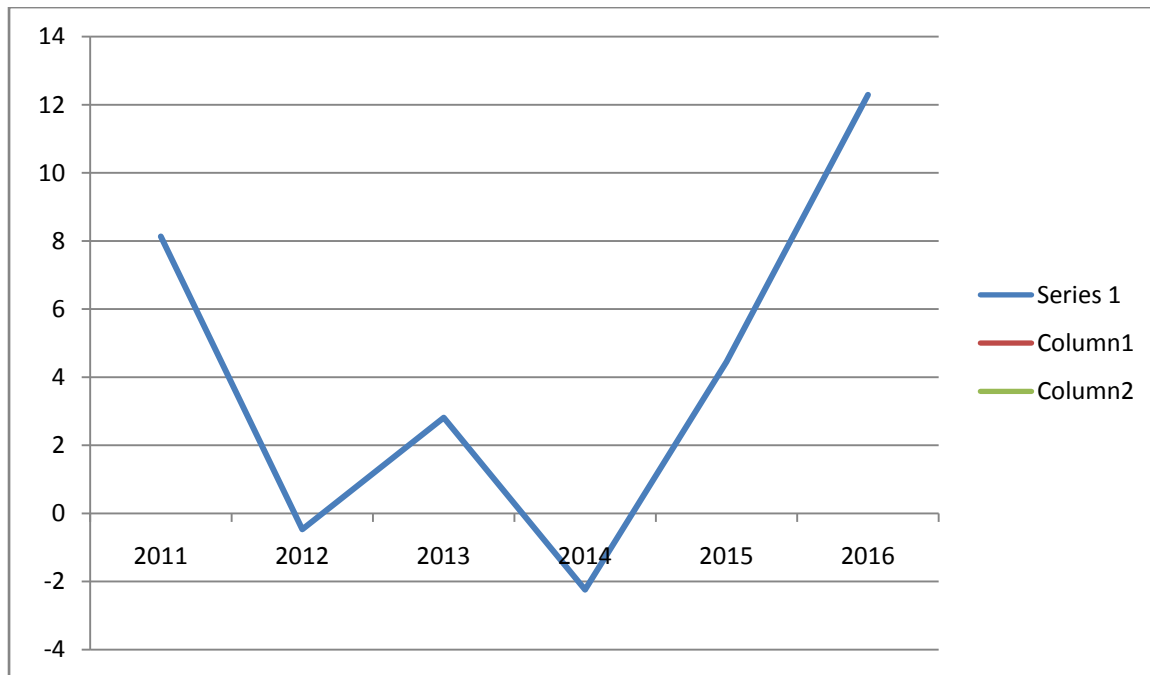

Chart 2: Book Value Per Share

Chart 3: Return on Equity

DATA ANALYSIS & INTERPRETATION

1. The table provides the liquidity score of amazon is more than 1, it indicates that the company is in a good position to pay off its short term debt.

2. Upward trend can be seen in the profitability score which indicates that the company's profit has increased over the last 6 years.

3. Fluctuations can be observed in the efficiency score of the company that means in the year 2011, company was not in good position to pay off its debts. But in the following years, 2012,2013,2014 efficiency ratio got better position which later on slightly decreased in next years of 2015, 2016.

4. Decreasing trend is seen in the activity score of the sampled unit which indicates the inefficiency of the company in utilizing its assets.

5. In terms of its market valuation, Book value per share can be seen increasing, that means from the investors' point of view it can be considered a good sign for their share in the company. From 2011 to 2016 an upward trend has been observed in the book value per share of the company. .

6. In regard to Return on Equity in some years it can be seen negative which can't be considered good for the investors of the company. It shows the company ability to generate the income for their equity.

7. If we observe the Return on Asset of the company it shows decreasing trend that indicates the inefficiency of the company in utilizing the assets.

8. By analyzing the Return on investment it also can't be said satisfactory because in some years it went to negative but it restored it position in 2015 and 2016.

FINDINGS OF THE STUDY

1. By Analyzing the Amazon's Financial statements over the last six financial years it can be concluded that the company has greatly improved. Amazon is strong in case of its high profitability growth.
2. Amazon struggles in case of solvency and must ensure to pays off its debt more quickly.
3. Amazon leads the industry while comparing the financial ratios with its competitors.

4. In future we would like to see Amazon to improve its operational efficiency.
5. Regarding free cash flow Amazon must invest in future improvement of its business. This investment will help in expanding the market and growth in the industry of the Amazon.

6. With the upward trend in the profitability its recommended for the investors to invest in the Amazon due to its strong financial record in the future.

7. Amazon can be said the top online retailer due to their efficient strategy. However the lower return on assets, return on equity, and return on investment can be alarming for the company but it can be considered the Amazon commitment in investing big projects and in the big acquisition. With more obligations and responsibilities more expenses come, but in the long run Amazon can make up for the expected losses. Amazon has made progress, with the new project plans, which indicates Amazon has not shown any sign of slow down.

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