Amazon.com, Invest or Not?

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Abstract: Amazon for a long time has been at the top of the e-commerce industry. The company has gone through many changes recently; for example, the switching of its CEO from Jeff Bezos to Andrew R. Jassy and also the Corona Virus Pandemic. Amazon was one of a few companies to have benefited from the Corona Virus Pandemic as it is mainly an online industry. Amazon stock rose during the pandemic due to consumers shopping mostly online rather than in stores. The e-commerce industry, of which Amazon is a part, is expected to grow by almost $11 trillion between 2021 to 2025. Even as physical stores begin to open, e-commerce growth is still rising due to efficiency and easy access.

Keywords: Investment; E-Commerce; Libillites; Profit; Revenue; Interest

Background

Amazon is an international e-commerce company that engages in the retail sale of consumer products. Amazon Prime is a membership program that gives advanced delivery options and availability to other services. In the 25 years since its creation, it has become the top e-commerce platform in the country. Amazon has over 2 million website visitors globally each month, with over 300 million active users. Amazon runs primarily in North America.

Amazon's CEO is Andrew R. Jassy who was appointed in 2021. Furthermore, Amazon's CFO is Brian T. Olsavsky who gained that position in 2015. Amazon has a total of 1,608,000 employees worldwide making it the company with the second-largest amount of employees in the world. Amazon also has many different departments with e-commerce, cloud computing, digital streaming, and artificial intelligence. Amazon's headquarters are based in Seattle, Washington and its largest shareholder is Jeff Bezos with 55.5 million shares or 11.1%.

The main reason I have chosen amazon as the stock is due to The growing e-commerce industry, of which Amazon is a part. Furthermore, Between 2021 and 2025, it is projected to increase by about $11 trillion. Due to its effectiveness and accessibility, e-commerce is continuing to grow even as physical businesses start to appear. Not only that Amazon is special as it is one of few companies to have heavily benefited from the Covid Pandemic. This Article will show the Ratios of Amazon's 2020 and 2021 annual revenue and its statistical properties. It will be to give a further understanding of Amazon's possible future and create an accurate prediction of Amazon's growth as a stock and whether it's a good investment.

Analysis

The following analysis will display statistics about Amazon's overall years of 2020 and 2021 comparing the two years and also explaining and giving insight into the meanings of each ratio.

Ratio Analysis

Current Ratio

2021	2020

1.14	1.05

A Current Ratio of a company measures whether that company has enough resources to meet its short-term obligations such as short-term debt or liabilities. In Amazon’s case, its current ratio increased from the years 2020 to 2021 by 8.5%. This time was during the time of the pandemic when in-person stores were mostly shut down leading to a higher influx of online shopping. And Covid coupled with the fact that Amazon is leading in the e-commerce industry led to a high increase in Amazon’s sales. The current ratio displays Amazon's Current Ratio is on the lower end but it is mainly due to the fact Amazon does not keep much inventory and instead is selling more than it keeps. This ratio should not come as too alarming in the case of Amazon.

Quick Ratio

2021	2020
0.91	0.86

Amazon's Quick Ratio is on the lower side, being below 1.0 technically meaning they aren’t able to pay its current liabilities, meaning they need to sell inventory or obtain additional cash and assets. But, in the case of Amazon, this is not the actual reason as Amazon does not keep much inventory and instead is selling more. Amazon's quick ratio should not be considered low due to the circumstances of its business. This is evident when compared to the quick ratios of other companies such as Walmart with a quick ratio of 0.29 at the end of the 2021 annual year.

Average Collection Period

2021	2020
22 days	20 days

Amazon has an excellent Average Collection Period having it be 22 days which means Amazon has high liquidity. This shows Amazon can pay off short-term debt without any need for additional cash flow. This Average Collection Period allows Amazon to generate more profit as it leads to necessary assets able to be accessible at all times. This shows the low risk of Amazon as it means there is never a time when there will be a lack of resources or revenue.

Inventory Turnover

2021	2020
8.344	9.805

Amazon has a positive Turnover Ratio which means they will be able to sell and restock their inventory quickly. Amazon's turnover rate has increased by 8.5% since the Covid-19 pandemic began. Amazon's turnover rate is leading with other competitors such as Walmart which had a turnover rate of 8.9% in the year 2020. The reason for Amazon's turnover ratio is that Amazon never actually keeps much of its inventory. Amazon is constantly selling and replenishing its supplies which leads to a higher ceiling for profit.

Time Interest Earned

2021	2020
13.753	13.903

Amazon’s Time Interest Earned Ratio is Extremely high meaning it will be able to pay off its current debt and liabilities with the income they make yearly. This is extremely beneficial because that means amazon won't be held back by liabilities leading to higher gross revenue. Amazon has a leading Time Interest Earned Ratio compared to other companies such as Walmart, Target, and eBay. Walmart had a Time Interest Earned Ratio of 8.3, Target had a Time Interest Earned Ratio of 10.1, and eBay had a Time Interest

Earned Ratio of 8.7.

Debt to Net Worth Ratio

2021	2020
0.316	0.297

Amazon has a very low Debt to Net Worth Ratio which means a low amount of Amazon’s assets are financed by debt meaning it is less risky for investors. Also, Amazon's Debt to Net Worth Ratio is leading among e-commerce companies. For example, when compared to top competitors such as Walmart, Target, and eBay Amazon has the lowest Debt to Net Worth Ratio. In the year ending in 2020 Walmart, Target, and Ebay’s Debt to Net Worth Ratio was 1.87, 2.82, and 5.90 respectively. This shows that Amazon is financially healthy and also how barely any of its finances are financed with debt.

Debt to Total Assets Ratio

2021	2020
0.329	0.291

Amazon's Debt to Total Assets Ratio has been rising since 2020. From 2020 to 2021 Amazon’s Debt to Total Assets Ratio has increased by 13%. This growth can be attributed to the changing of leadership from Jeff Bezos to Andrew R. Jassy in the year 2021. But overall, Amazon also has a very low Debt to Total Assets Ratio which means a more significant amount of Amazon’s assets are owned by stockholders than liabilities meaning it is also less risky for investors. This will in turn mean that amazon also will not need additional loans for the company.

Return on Assets

2021	2020
8.98%	7.88%

Amazon has a good ROA showing they can successfully use assets to make a profit. Amazon’s ROA is leading in the e-commerce industry when compared to the ROA of other companies. For example, Walmarts ROA of 5.55%, and Target's of 8.21% for the 2020 calendar year. This shows Amazon has good financial health. Amazon's ROA is leading in the e-commerce industry as it is ahead of Walmarts ROA at 3.30% by the end of 2021. Amazon's ROA has seen a significant increase of 77.8% from the beginning of the Covid-19 Pandemic to the end of the 2021 calendar year. This shows Amazon would be a low-risk investment as they easily convert assets to profit.

Return on Equity

2021	2020
27.98%	27.07%

Amazon has a positive ROE showing they can effectively use equity to generate profit. Amazon's ROE has been rising since the start of Covid. Covid helped amazon benefit because in-person stores were closing and most people were switching to online retailers such as Amazon. In 2021 Amazon's highest ROE was during the first quarter which reached 30.47%. That was 10% larger than Amazon's ROE prior to the pandemic which shows the large benefit amazon gained from the pandemic.

Financial Leverage

2021	2020
3.042	3.439

Amazon has a concerningly high Financial Leverage Ratio meaning Amazon is using a large amount of debt in conducting operations. Over the year 2020 to 2021 during the covid pandemic amazon experienced a decline of 11.5% which is most likely due to the Covid-19 Pandemic. Its financial leverage shows that a good amount of Amazon's assets are owned in debt. This is not too serious of a situation in regards to Amazon because Amazon’s not keeping a lot of inventory means they are easily able to pay back the debt.

Gross Profits

2021	2020
42.3%	39.5%

Due to Amazon's High ROE and ROA ratios Amazon is shown to be able to efficiently generate profit and value for shareholders. Amazon’s Profitability Ratio increased between the years 2020 and 2021 by 7%. This shows Amazon’s dominance in the e-commerce industry as its Profitability Ratio is levels above the other major competitors in the industry. For example, Walmarts Profitability Ratio is 24.1%, and Target's Profitability Ratio of 29.29%. This shows Amazon’s ability to increase revenue from its assets compared to other competitors in the e-commerce industry.

Recommendation

From the Ratio Analysis you can concur that Amazon is a considerable investment with a high ROA and ROE, showing a return on investment.

Amazon also has a high Time Interest Earned, low Debt to Net Worth, and low Debt to Asset which makes the company safe and very stable meaning it is less risky for investors. Amazon also has a high Inventory Turnover Ratio meaning it will be able to sell and restock quickly which is prominent in its e-commerce industry.

There are a couple of downsides though such as high Financial Leverage and low Current and Quick Ratios. This will cause a little risk due to the dangerous amount of current liabilities, meaning they might need other sources to pay back debt. But, in Amazon's case, it should be fine as it is mainly due to the fact Amazon does not keep much inventory and instead is selling more than it keeps. This ratio should not come as too alarming in the case of Amazon.

Overall, Amazon is a good investment, but, there might be a concern about its Financial Leverage and low Current and Quick Ratios in the future.

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