

Amazon

Executive Summary

Amazon started as an online bookstore and has since diversified into various sectors including entertainment and technology. Their mission statement emphasizes them being the most customer-centric company globally. Prime, a significant revenue driver for the business, has over 230 million subscribers worldwide, with 167 million in the U.S. alone. In 2023, Prime generated over \$40 billion in revenue. The number of Prime members has shown exponential growth: from 1 million in 2008 to over 230 million by 2023. Amazon's consistent reinvestment into various sectors, including technology and healthcare, aligns with its mission to be customer-centric. This strategy has led to a steady increase in cash flow and stock prices. The company's focus on long-term investments and customer-centric innovations is poised to continue driving its growth.

Amazon Case Report

Amazon was founded in 1994 by Jeff Bezos in Bellevue, Washington as Cadabra, Inc. the name rooted from the saying “abracadabra”. According to an article by James Quinn at the Telegraph, Jeff Bezos changed the name to Amazon a year after establishing due to a lawyer who misheard their name as “cadaver”.¹ Amazon made their initial public offering on May 15th, 1997 for \$18 per share on the NASDAQ exchange, since then Amazon has had 4 different stock splitting events. In 1998 they split 2:1, 1999 they split 3:1, later that year they underwent a 2:1 split, in 2022 they underwent their most recent split at 20:1 which makes it their biggest stock split so far. The cumulative multiple over the past 27 years has been 240 which means if you had bought one share of Amazon when it went public, you would have 240 shares currently.

The online super store started as a humble online bookstore and at the time was a revolutionary new way to order interface with the internet, According to Amazon’s mission statement, “Our vision is to be the Earth’s most customer-centric company; to build a place where people can come to find and discover anything they might want to buy online.”² According to Similarweb, a website analytics company, Amazon is ranked in 14th place of most visited website in the world. Since its humble beginnings as an online bookstore, Amazon.com has grown to offer a multitude of services, from music and movies to hospitals to the acquisition of newer companies. In 2014 Twitch Interactive was purchased by Amazon for \$970 million, according to an article by Mae Anderson for the Associated Press, “The e-commerce giant is buying streaming platform... as it seeks to take part in video gaming’s growth as an online spectator sport.”³

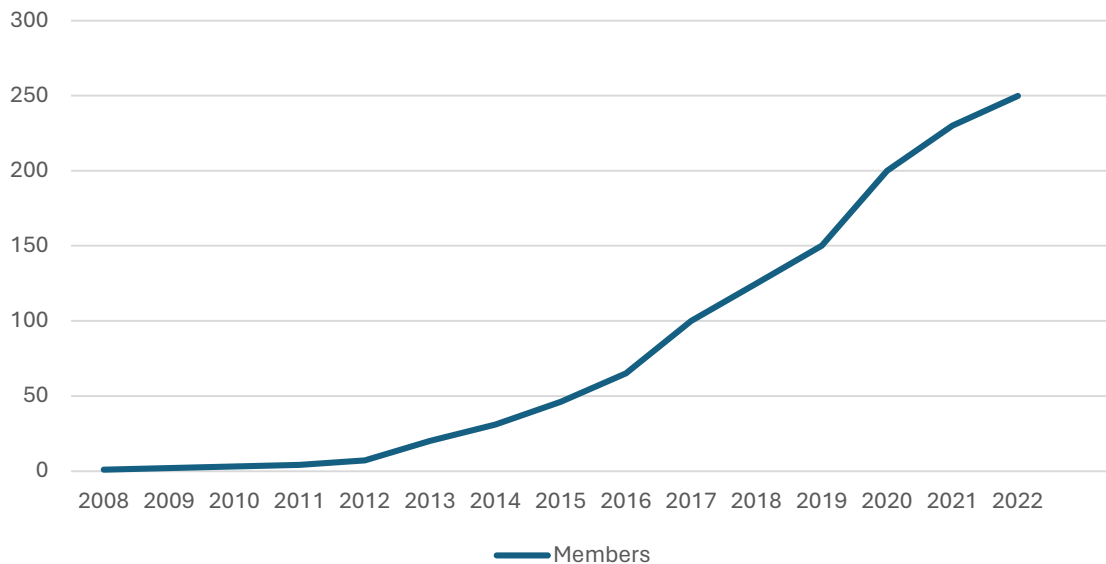
Amazon.com, Inc has grown so much since its birth, they beat out CVS and acquired One Medical for \$3.9 billion cash in 2022. Amazon’s mission statement which states that they want to be the most customer-centric company on the planet is what drives them to expand their ecosystem of services that they offer. Amazon has an interest when it comes to the healthcare industry, in 2018 Amazon purchased PillPack an online pharmacy in the United States for \$753 million. It seems that Amazon has the Midas touch when it comes to mergers and acquisitions, according to Christina Farr at CNBC, “Shares of CVS, Walgreens and Rite Aid tumbled on concern that Amazon was further encroaching on their territory after already taking a huge chunk of the market for toiletries and household goods.”⁴

Performance leading up to 20-year-anniversary

Amazon has more than 230 million subscribers to Prime in 200 countries, 167 million of them being in the United States. According to Yaguara, an e-commerce data analytics company, Amazon generated over \$40 billion in revenue through their Prime service.⁵ In 2008 Amazon had just 1 million users, in 2012 they had 7 million, and 20 million members in 2013. Figure 1 displays Amazon Prime Members over the years since 2008 according to Exploding Topics⁶ and SignHouse⁷. It has been over 7 years since Amazon's 20 year anniversary of their initial public offering in 1997 and leading up to their 20 year anniversary which was on May 15th, 2017, Amazon was performing in a way that was looking to the future. They had been consistently growing their amount of subscribers to Prime up to that date and according to the MIT article by Christopher Noe and Joseph Weber, Amazon has been continuing to sacrifice short-term profit in exchange for research and development to grow and expand.⁸ As a public company, the commonly known rule is to keep increasing shareholder value, Amazon has been working towards this goal like every other company and they have focused on long-term investments into their business. Much like their mission statement about being customer-centric, their investments have focused on being more accessible and offering more services to customers.

Figure 1

Amazon Prime Members (Millions)



In the near-term over the past 7 years since their 20-year anniversary, Amazon has performed better than before. Their Prime users have more than doubled and Prime membership subscriptions account for most of their Revenue. We can use the number of Prime members globally as a good indicator of their performance since Amazon's mission is to be the most customer-centric company in the world. In the long-term looking forward, Amazon is on track to continue growing globally, currently according to Statista, the market share of e-commerce retail that Amazon holds is 37.6%⁹

Cash Flow Statements

Observing Amazon.com, Inc.'s cash flow statement, Income Statement, and Balance sheets, a story can be told from them. Looking at the cash flow statements in figure 5, in 2014 Amazon was dealing with a \$241 million net income loss and in 2015 a net income of \$596 million, in 2016 it almost quadrupled to \$2.371 billion. This significant growth in their net income shows a great ability to continue growing their profitability, their stock-based compensation shows that their employees may be more inclined to perform well. \$1.497 billion in stock-based compensation in 2014, \$2.119 billion in 2015, and \$2.975 billion in 2016. Over the years between 2014 through 2016, Amazon has been able to keep raising its level of cash and cash equivalents, while continuing to make large investments to keep growing. One of the benefits of being a publicly traded company is that the ability to issue stock in lieu of compensation allows a corporation to maintain a higher cash flow, Amazon can then use this cashflow to invest in research and development.

Income Statements

Looking at the income statement, there are some key takeaways that can be observed. Amazon's net sales increased from \$88.988 billion in 2014 to \$107.006 billion in 2015 and \$135.987 billion in 2016 this strong revenue growth coincides with the growth of Prime membership shown in figure 1. Much like the growth of their sales and income, expenses have also risen, marketing costs have increased from 2014 to 2016 which shows their increased focus on customer acquisition. In 2014 they spent \$4.332 billion and in 2015 they spent \$5.254 billion, by 2016 Amazon was spending \$7.233 billion on marketing costs. However, the income statement seen in figure 3 does show some underperformance in certain aspects of the business. The equity-method investment activity does indicate a loss of \$96 million in 2016, \$22 million loss in 2015, this shows how Amazon's equity investments in other companies are and a loss indicates underperformance. In order to maintain this level of growth, there are many other sides to the operations required. Interest expense has grown every year as well as interest income. Overall, the information gathered from the income statements for 2014 to 2016 shows a company that is consistently growing.

Balance Sheets

Looking at the balance sheet in figure 4 there are noticeable changes that happened over the 3 years. There was a significant increase in Amazon's current, which rose from \$31.327 billion in 2014 to \$45.781 billion in 2016. Their growth was created by an increase in accounts receivable, cash and cash equivalents, marketable securities, and inventories. Cash and cash equivalents rose from \$14.557 billion to \$19.334 billion, while their marketable securities grew from \$2.859 billion to \$6.647 billion. Amazon also invested heavily in Property and equipment, \$16.967 billion in 2014 to \$29.114 billion in 2016, this large expense and increase is necessary due to their model of fast delivery times. All in all, the balance sheet from 2014 through 2016 shows a significant increase in assets, due mostly to cash, and property and equipment, marketable securities, and increased business. Liabilities have increased due to rises in accounts payable, however this shows scalability and with a stable long-term debt and an increasing equity shows how Amazon is positioned for growth. Amazon's cash flow from operations in 2014 to 2016 was higher than its net income. This happens in business and accounting, and it is due to a multitude of reasons. However, looking at the graphs provided by the MIT article by Noe and Weber shown

in figure 2, the rapid rise of cash flow from operations coincides with the rapid rise of the stock price.

Recommendation

Through 2014 and 2016, there were many avenues that Amazon decided to spend their money through. From capital expenditures to acquisitions, Amazon has consistently decided to use the cash flow that they generated between 2014 and 2016 to become the most customer-centric company in the world. This path that Jeff Bezos envisioned when creating Cadabra, Inc. requires constant investment in the company and customers. A pathway for Amazon to get from \$2 billion to \$20 billion in net income from 2016 to 2021 is through the customers, as their mission statement had stated, “Our vision is to be the Earth’s most customer-centric company; to build a place where people can come to find and discover anything they might want to buy online.” Continuing to invest in the company will yield positive results, one area that may have room for improvement is the marketing expense, \$4.332 billion in 2014 to \$7.233 billion in 2016. Increasing this marketing expense may increase customer acquisition and drive more customers to their services.

According to a Barron’s article by Jack Hough, “Ironically, now that Amazon has convinced the investing public of the unimportance of profits, its earnings are on the verge of soaring. Within five years, they could total \$20 billion a year, a level only six U.S. companies are expected to reach this year. True enough, those forecasts have a way of coming down over time, but unless Amazon’s next venture is launching a small nation-state, it will have a hard time investing away such a sum, not to mention its free cash flow, which is much higher.”⁸ Seeing this, it’s a great feat that Amazon is capable of achieving, only 6 other companies in the United States have accomplished this. The beginning of Jack Hough’s quote is similar to a portion of Jeff Bezos’ philosophy which he wrote in 1997, “We will continue to make investment decisions in light of long-term market leadership considerations rather than short-term profitability considerations or short-term Wall Street reactions.”⁸ This philosophy from over 27 years ago is the path that Amazon should continue down. Warren Buffet, an avid investor in Amazon.com, Inc. has a similar philosophy when it comes to investing in companies, according to Investopedia, “Buffett looks at companies as a whole rather than focusing on the supply-and-demand intricacies of the stock market.”¹⁰ It’s important to focus on the business most importantly, and for Amazon their business is the customers.

Conclusion

In conclusion, Amazon’s evolution from a humble online bookstore to a global e-commerce and technology giant exemplifies its strategic focus on customer-centric innovation and long-term growth. Under the leadership of Jeff Bezos, the company has consistently reinvested in diverse sectors, including entertainment, healthcare, and technology, reinforcing its mission to be the Earth’s most customer-centric company. The exponential growth of Amazon Prime, with over 230 million subscribers worldwide, underscores the success of its customer-focused approach. Financially, Amazon has demonstrated robust growth in net income, cash flow, and asset acquisition from 2014 to 2016, driven by strategic investments and increased marketing efforts. Looking ahead, Amazon is well-positioned to continue its trajectory of global expansion and market leadership, leveraging its extensive ecosystem and commitment to innovation. The company's ability to adapt and grow in response to market demands and opportunities will be key to maintaining its competitive edge and achieving sustained success in the future.

Appendix

Figure 2

Exhibit 1 Amazon.com, Inc. 1997-2016 Stock Price, Cash Flow from Operations, and Net Income

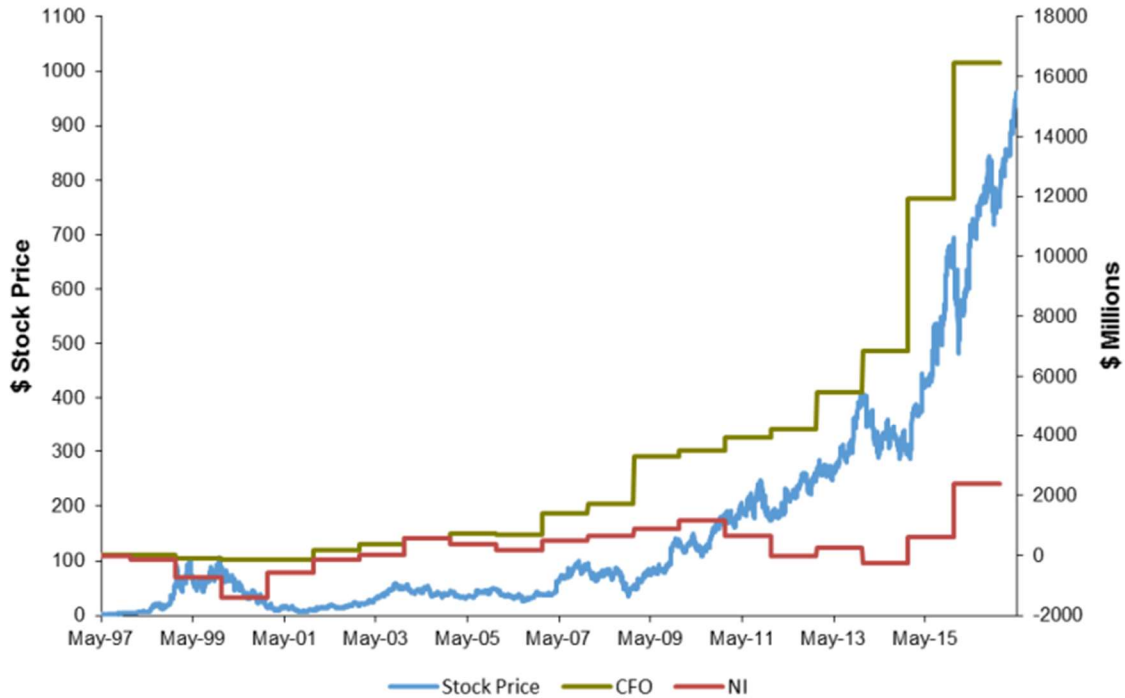


Figure 3

Exhibit 2 (cont.) Amazon.com, Inc. 2014-16 Income Statements (\$ Millions)

| | Year Ended December 31, | | |
|---|-------------------------|---------|--------|
| | 2016 | 2015 | 2014 |
| Net product sales | 94,665 | 79,268 | 70,080 |
| Net service sales | 41,322 | 27,738 | 18,908 |
| Total net sales | 135,987 | 107,006 | 88,988 |
| Operating expenses: | | | |
| Cost of sales | 88,265 | 71,651 | 62,752 |
| Fulfillment | 17,619 | 13,410 | 10,766 |
| Marketing | 7,233 | 5,254 | 4,332 |
| Technology and content | 16,085 | 12,540 | 9,275 |
| General and administrative | 2,432 | 1,747 | 1,552 |
| Other operating expense, net | 167 | 171 | 133 |
| Total operating expenses | 131,801 | 104,773 | 88,810 |
| Operating income | 4,186 | 2,233 | 178 |
| Interest income | 100 | 50 | 39 |
| Interest expense | (484) | (459) | (210) |
| Other income (expense), net | 90 | (256) | (118) |
| Total non-operating income (expense) | (294) | (665) | (289) |
| Income (loss) before income taxes | 3,892 | 1,568 | (111) |
| Provision for income taxes | (1,425) | (950) | (167) |
| Equity-method investment activity, net of tax | (96) | (22) | 37 |
| Net income (loss) | 2,371 | 596 | (241) |

Figure 4

Exhibit 2 (cont.) Amazon.com, Inc. 2014-16 Balance Sheets (\$ Millions)

| | December 31, | | |
|--|---------------|---------------|---------------|
| | 2016 | 2015 | 2014 |
| Current assets: | | | |
| Cash and cash equivalents | 19,334 | 15,890 | 14,557 |
| Marketable securities | 6,647 | 3,918 | 2,859 |
| Inventories | 11,461 | 10,243 | 8,299 |
| Accounts receivable, net and other | 8,339 | 5,654 | 5,612 |
| Total current assets | <u>45,781</u> | <u>35,705</u> | <u>31,327</u> |
| Property and equipment, net | 29,114 | 21,838 | 16,967 |
| Goodwill | 3,784 | 3,759 | 3,319 |
| Other assets | 4,723 | 3,445 | 2,892 |
| Total assets | <u>83,402</u> | <u>64,747</u> | <u>54,505</u> |
| Current liabilities: | | | |
| Accounts payable | 25,309 | 20,397 | 15,459 |
| Accrued expenses and other | 13,739 | 10,372 | 9,807 |
| Unearned revenue | 4,768 | 3,118 | 1,823 |
| Total current liabilities | <u>43,816</u> | <u>33,887</u> | <u>28,089</u> |
| Long-term debt | 7,694 | 8,227 | 8,265 |
| Other long-term liabilities | 12,607 | 9,249 | 7,410 |
| Stockholders' equity: | | | |
| Common stock | 5 | 5 | 5 |
| Treasury stock, at cost | (1,837) | (1,837) | (1,837) |
| Additional paid-in capital | 17,186 | 13,394 | 11,135 |
| Accumulated other comprehensive loss | (985) | (723) | (511) |
| Retained earnings | 4,916 | 2,545 | 1,949 |
| Total stockholders' equity | <u>19,285</u> | <u>13,384</u> | <u>10,741</u> |
| Total liabilities and stockholders' equity | <u>83,402</u> | <u>64,747</u> | <u>54,505</u> |

Source: Amazon.com, Inc. 10-Ks, December 31, 2016 and December 31, 2015.

Figure 5

Exhibit 2 Amazon.com, Inc. 2014-16 Cash Flow Statements (\$ Millions)

| | Year Ended December 31, | | |
|--|-------------------------|---------|---------|
| | 2016 | 2015 | 2014 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 15,890 | 14,557 | 8,658 |
| OPERATING ACTIVITIES: | | | |
| Net income (loss) | 2,371 | 596 | (241) |
| Adjustments to reconcile net income (loss) to net cash from operating activities: | | | |
| Depreciation of property and equipment, including internal-use software and website development, and other amortization, including capitalized content costs | 8,116 | 6,281 | 4,746 |
| Stock-based compensation | 2,975 | 2,119 | 1,497 |
| Other operating expense, net | 160 | 155 | 129 |
| Other expense (income), net | (20) | 250 | 59 |
| Deferred income taxes | (246) | 81 | (316) |
| Excess tax benefits from stock-based compensation | (829) | (119) | (6) |
| Changes in operating assets and liabilities: | | | |
| Inventories | (1,426) | (2,187) | (1,193) |
| Accounts receivable, net and other | (3,367) | (1,755) | (1,039) |
| Accounts payable | 5,030 | 4,294 | 1,759 |
| Accrued expenses and other | 1,724 | 913 | 706 |
| Additions to unearned revenue | 11,931 | 7,401 | 4,433 |
| Amortization of previously unearned revenue | (9,976) | (6,109) | (3,692) |
| Net cash provided by (used in) operating activities | 16,443 | 11,920 | 6,842 |
| INVESTING ACTIVITIES: | | | |
| Purchases of property and equipment, including internal-use software and website development, net | (6,737) | (4,589) | (4,893) |
| Acquisitions, net of cash acquired, and other | (116) | (795) | (979) |
| Sales and maturities of marketable securities | 4,733 | 3,025 | 3,349 |
| Purchases of marketable securities | (7,756) | (4,091) | (2,542) |
| Net cash provided by (used in) investing activities | (9,876) | (6,450) | (5,065) |
| FINANCING ACTIVITIES: | | | |
| Excess tax benefits from stock-based compensation | 829 | 119 | 6 |
| Proceeds from issuance of long-term debt | 621 | 353 | 6,359 |
| Repayments of long-term debt and other | (354) | (1,652) | (513) |
| Principal repayments of capital lease obligations | (3,860) | (2,462) | (1,285) |
| Principal repayments of finance lease obligations | (147) | (121) | (135) |
| Net cash provided by (used in) financing activities | (2,911) | (3,763) | 4,432 |
| Foreign currency effect on cash and cash equivalents | (212) | (374) | (310) |
| Net increase (decrease) in cash and cash equivalents | 3,444 | 1,333 | 5,899 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | 19,334 | 15,890 | 14,557 |

Source: Amazon.com, Inc. 10-K, December 31, 2016.

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