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Exeter Student Investment Fund

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Learn. Network. Invest.

# Amazon (AMZN)

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## **Investment Thesis**

- Stable, dominant and growing core business model with many competitive advantages
- Company culture of long term growth and innovation
- The capacity to enter and disrupt new and developing markets
- Trend shift to online shopping accelerate by COVID-19 epidemic
- Great risk reward ratio

## **Potential Risks**

- Any performance below high revenue expectations will have negative implications on the stock price
- Profit margins are thin
- Increase in competition
- Slowing revenue growth
- Regulatory risks
- Increased tax policy and a reduction in consumer spending during an economic downturns

# Company Overview – Main Business Model



- E-commerce
- Subscriptions and streaming services
- Advertising
- Amazon Web Services (AWS)
- Wholefoods

# Company Overview – Advantages and Opportunities



## **Competitive advantages**

- Dominance in e-commerce: product selection range, prices, next day delivery, high national and international reach
- Near 50% market share in cloud technology
- Ability to enter and disrupt markets with high barriers to entry using existing network
- Allocate capital from profitable businesses to help fund new ventures
- Economies of scale

## **Growth opportunities**

- Expansion in India
- Development of logistics network: delivery fleet and supply chain automation
- Continued growth in online sales and third party selling platform
- Other ventures: E-pharmacy, payments, online groceries

# Company Overview – Management



## **Jeff Bezos - Founder and CEO**

- Due to step down to focus on new projects and early ventures
- Bezos will remain chairman of the board
- Largest Shareholder with 11.1% ownership



## **Brian Olsavsky – CFO**

- MBA in Finance from Carnegie Mellon University
- Joined Amazon in 2002



## **Andrew Jassy – CEO of AWS**

- MBA from Harvard Business School
- Joined Amazon in 1997 and founded AWS

# Company Overview – Competition



## **E-commerce**

- Alibaba, JD.com, Etsy

## **Cloud tech**

- Microsoft, Google, Alibaba, IBM

## **Advertising**

- Facebook, Google

## **Groceries**

- Walmart, Costco, Target.

## **Subscription services**

- Netflix, Apple, Google, Spotify, Sky



## **Environmental**

- Commitment to be net-zero carbon by 2040
- Ordered over 100,000 fully-electric vehicles for their delivery fleet
- \$2 billion fund to back visionary companies whose products and services will facilitate the transition to a low-carbon economy
- Sustainable packaging: 100% recyclable and reduced weight

## **Social**

- Huge employer, creating lots of jobs
- Concerns of underpaid workers and poor working conditions in some areas of the supply chain
- Raised their minimum wage for all workers to \$15 per hour, however some concerns over working conditions and remain

## **Governance**

- Concerns over Jeff Bezos' dual position of CEO and chairman. Partially resolved by Bezos' decision to step down as CEO
- Majority of the board is independent which is important to avoid some agency problems

# Financial Trends



Ratio	Trendline	Comments
Revenue growth		High and relatively stable, some inconsistencies, no signs of slowing but is inevitable
Gross profit margin		Linearly increasing, possible signs of plateau in 2020 data
Operating profit margin		Upward trend in operating margin, significant improvement in the last 3 years
Net profit margin		In line with operating margin, could be exposed to regulatory changes in tax policy and reduction in consumer spending
R&D expenditure growth		Increasing spending on R&D, important for a growth and innovation driven company
AWS % revenue		Increasing percentage of total revenue. Diversifying business model
AWS revenue growth		High growth albeit recently decreasing. Likely due to competition
Current Ratio		More current assets than liabilities, stable amount
Operating cash ratio		Healthy amount of operating cash and is increasing year on year
Avg. Cash Conversion Cycle		Able to recognise revenue quickly from customers while delaying payments to suppliers
Total Debt/Equity		D/E ratio is above 1 but is not a concern because they have plenty of cash to cover the debt
LT Debt/Equity		Vast majority of the debt is long term
Total Liabilities/Total Assets		Debt ratio is below 1, indicating more assets than liabilities
Interest coverage ratio		High interest coverage ratio, easily able to pay current interest costs





## Free cash flow

- Growth rate assumptions slowly decreasing with terminal growth of 10%.
- Approximate intrinsic value: \$3400 - \$3800 per share
- Current price: \$3100 – under estimated range of fair value

## Multiples

- EV/EBITDA – 32x, slight premium to the 30x online retailer average
- P/E - 76x, large premium to the 50x online retailer average.

## Analyst expectations

- Wide range of views from many analysts – Amazon is a well covered stock
- Yahoo Finance states an average price target of \$4000 from 45 analysts - 30% upside from current price

# Closing Summary



- This stock is a winner because Amazon is a winner
- Use existing network and profits from other business areas to enter and disrupt industries which have high barriers to entry
- Has considerable plans to improve their impact on the environment while also contributing funds to the innovation of clean energy
- With a company like Amazon, you can simply sit back and relax
- “It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price.” – Warren Buffet