I. Amazon.com Inc Financial Performance

Amazon.com Inc is the largest online retail company founded by Jeff Bezos in 1995. Today the company has more than a $100 billion market capitalization with aggressive global expansion efforts paving the way for online shopping convenience with the use of cloud computing technology. The key advantages of the company are being able to offer products at a lower price compared to market value. This has allowed them to penetrate different market segments especially with the expansion of products and services (Chaffey, 2011).

The success of Amazon's business model is evident in its revenues wherein total revenues have increased in the past three years from $19 billion to $34 billion USD. This indicates a strong market growth solidifying their status as an industry leader in the field of e-commerce. The makes use of a direct to consumer e-commerce model that supports their inventory management. In general this has reduced their risk exposure in the past three years by removing granularity risks as they keep smaller inventories of items and establishment of warehousing facilities worldwide. As such, the company's logistics are strategically planned enabling them to gain gross profits of $4.56 billion to $8.21 billion USD from 2008 to 2010 (Amazon, 2011).

These financial indicators have illustrated a nearly 50% increase in as short as three years, which is significant feat in spite of the global recession. The company's free cash flows from 2008 to 2010 was $1.7 billion to $3.5 billion USD that indicates the high liquidity as compared to their net income of $654 million to $1.15 billion in the same period. As such, the company has been able to balance its inflows and outflows with a notable decline compared to capital expenditures from $333 million USD to $979 million USD. This translates to more prudent expansion efforts compared to perceived corporate actions. Amazon in fact has been applying cost saving measures while at the same time increasing profit revenues (Amazon, 2011).

This implies that the company has diversified its business prior to the global recession allowing them to have already engaged in expansion efforts ahead of competitors. The categorical expansion of Amazon has been to focus on international markets that are beyond North America and Europe. Moreover, the company has capitalized in technology such as e-books, music and videos wherein these are the major revenue streams of the company. Significantly by expanding their product lines as well this has allowed them to be a full time online retailer wherein even grocery shopping can be quickly accomplished. The financial performance of the company in the past three years is based on their presence in the European and Asian markets since the beginning of the new millennium (Revsine, 2011).

These are non-saturated markets allowing them to have new profit streams. Moreover, the company has also included a third party seller facility that allows other vendors to sell through their website. In this way, smaller companies are able to sell and avail of the logistical and technological support of Amazon. This has reduced Amazon's risk exposure by more than forty percent and has allowed them to generate more cost savings in the past three years. Third party sellers also pay Amazon a commission for products sold creating a win-win solution (Revsine, 2011).

This has allowed Amazon to achieve a sustainable enterprise through strategic expansion and even business diversification such as holding a variety of web services technologies that utilize their e-commerce platform sales. Moreover, the own other websites such as Clickriver.com., Askville.com and Alexa.com. In this manner, the company has been able to efficiently manage its balance sheet the past three years with total assets increasing from $16.9 to $19 billion USD. In the same period a manageable liabilities have been incurred showing a slow increase from $9.54 to only $11.3 billion USD ascertaining proper financial forecasting and planning by the company indicating a strong and stable financial performance (Amazon, 2011).

II. Amazon.com Inc Stock Performance

Amazon.com is a publicly traded company enabling it to have high market capitalization as their stocks are traded in the Nasdaq, Nasdaq-100 and S&P 500 component. Its current total equity as of 2010 is $6.86 billion USD as the company has released both preferred and common stocks to the market. The preferred stocks, which was only sold in 2010 was 500 million shares with a value of $.01. For the past three years the company has continuously sold common stocks or shares that has been increasing from 435 to 461 million. The increase was most notable in 2009 with the acquisition of Zappos after which the company has subsequently repurchased common stock shares the highest of which was $100 million in 2008. This would allow the company to consolidate shareholder control over their equities (Amazon, 2011).

It has also generated more interest in their stocks especially due to their outstanding performance. This is because of the recognition of non-cash gains using the equity method investment activity. The current stock price is above 218, with high chances of increase at nearly 1.2%. The company’s financial performance has positively impacted their stocks as revenue growth is classified as very high at 41.6%. This is above the industry average wherein the Price to Earnings ratio is 114 and Price to Book at 12.8; both of are deemed by analysts as very high. Return on Assets is at 5.6%, Return on Equities is at 12.3% and EBITDA is at 48.2, all these are also very high indicators as well. As such, the stock performance of the company in the past three years has been consistent with EBIT figures increasing from $972 million to $1.54 billion between the years 2008 to 2010 (Forbes, 2011).

As such on average the company has posted 20.5% in return on equity with a gross profit margin of 23.7%. Historically, the average return on invested capital is 16.7% with a debt equity ratio of .23. This also indicates a 168% average price to earnings ratio that is remarkably outperforming making their stock performance not only consistent but recommendable with confident expected returns (Forbes, 2011).

III. Trend Analysis

Based on key figures of Amazon, the future prospects are promising as the company will be able to continue to profit from its current business model. Their earnings will most likely come from their internationalization projects wherein they have a presence in key areas such as China, France and Japan. Furthermore, the company has a diverse range of businesses that relies on the technological advancements of e-commerce. This includes selling their e-commerce platform, development of EC2, S3 and SQS. Moreover, the companies other websites provide them with a multi-faceted presence in the Internet as they are offering search engines, advertising platforms, human task market place other than their more famous online retailing website. In this manner, the company is well prepared in the next five years to expand its e-commerce empire other than retail (Chaffey, 2011).

It is also important to note how Amazon has evolved as a company enabling them to utilize a business model than emphasizes on savings and internal investment. This strengthens their operational capacity by providing wider profit gaps and increased revenue streams. Analysts expect a strong performance in the next five to ten years based on their stock and consolidated financial information. It is more than likely that their stock prices will be coveted for its stability in the market especially since the future company initiatives are widely anticipated. This excites the investing public as the profit returns are ranked as commendable to any investment portfolio (McKinsey et al., 2010).

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Appendix Consolidated Financial Statements

AMAZON.COM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Year Ended December 31,		
	2010	2009	2008
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$ 3,444	$ 2,769	$ 2,539
OPERATING ACTIVITIES:			
Net income	1,152	902	645
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation of fixed assets, including internal-use software and website development, and other amortization	568	378	287
Stock-based compensation	424	341	275
Other operating expense (income), net	106	103	(24)
Losses (gains) on sales of marketable securities, net	(2)	(4)	(2)
Other expense (income), net	(79)	(15)	(34)
Deferred income taxes	4	81	(5)
Excess tax benefits from stock-based compensation	(259)	(105)	(159)
Changes in operating assets and liabilities:			
Inventories	(1,019)	(531)	(232)
Accounts receivable, net and other	(295)	(481)	(218)
Accounts payable	2,373	1,859	812
Accrued expenses and other	740	300	247
Additions to unearned revenue	687	1,054	449
Amortization of previously unearned revenue	(905)	(589)	(344)
Net cash provided by (used in) operating activities	3,495	3,293	1,697
INVESTING ACTIVITIES:			
Purchases of fixed assets, including internal-use software and website development	(979)	(373)	(333)
Acquisitions, net of cash acquired, and other	(352)	(40)	(494)
Sales and maturities of marketable securities and other investments	4,250	1,966	1,305
Purchases of marketable securities and other investments	(6,279)	(3,890)	(1,677)
Net cash provided by (used in) investing activities	(3,360)	(2,337)	(1,199)
FINANCING ACTIVITIES:			
Excess tax benefits from stock-based compensation	259	105	159
Common stock repurchased	—	—	(100)
Proceeds from long-term debt and other	143	87	98
Repayments of long-term debt and of capital and financing leases	(221)	(472)	(355)
Net cash provided by (used in) financing activities	181	(280)	(198)
Foreign-currency effect on cash and cash equivalents	17	(1)	(70)
Net increase in cash and cash equivalents	333	675	230
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 3,777	$ 3,444	$ 2,769
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	$ 11	$ 32	$ 64
Cash paid for income taxes	75	48	53
Fixed assets acquired under capital leases	405	147	148
Fixed assets acquired under build-to-suit leases	172	188	72
Conversion of debt	—	—	605

AMAZON.COM, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)

	Year Ended December 31,		
	2010	2009	2008
Net sales	$34,204	$24,509	$19,166
Operating expenses (1):			
Cost of sales	26,561	18,978	14,896
Fulfillment	2,898	2,052	1,658
Marketing	1,029	680	482
Technology and content	1,734	1,240	1,033
General and administrative	470	328	279
Other operating expense (income), net	106	102	(24)
Total operating expenses	32,798	23,380	18,324
Income from operations	1,406	1,129	842
Interest income	51	37	83
Interest expense	(39)	(34)	(71)
Other income (expense), net	79	29	47
Total non-operating income (expense)	91	32	59
Income before income taxes	1,497	1,161	901
Provision for income taxes	(352)	(253)	(247)
Equity-method investment activity, net of tax	7	(6)	(9)
Net income	$ 1,152	$ 902	$ 645
Basic earnings per share	$ 2.58	$ 2.08	$ 1.52
Diluted earnings per share	$ 2.53	$ 2.04	$ 1.49
Weighted average shares used in computation of earnings per share:			
Basic	447	433	423
Diluted	456	442	432

(1) Includes stock-based compensation as follows:

Fulfillment	$ 90	$ 79	$ 61
Marketing	27	20	13
Technology and content	223	182	151
General and administrative	84	60	50

AMAZON.COM, INC.

CONSOLIDATED BALANCE SHEETS
(in millions, except per share data)

	December 31, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,777	$ 3,444
Marketable securities	4,985	2,922
Inventories	3,202	2,171
Accounts receivable, net and other	1,587	988
Deferred tax assets	196	272
Total current assets	13,747	9,797
Fixed assets, net	2,414	1,290
Deferred tax assets	22	18
Goodwill	1,349	1,234
Other assets	1,265	1,474
Total assets	$18,797	$13,813
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 8,051	$ 5,605
Accrued expenses and other	2,321	1,759
Total current liabilities	10,372	7,364
Long-term liabilities	1,561	1,192
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value:		
Authorized shares—500		
Issued and outstanding shares—none	—	—
Common stock, $0.01 par value:		
Authorized shares—5,000		
Issued shares—468 and 461		
Outstanding shares—451 and 444	5	5
Treasury stock, at cost	(600)	(600)
Additional paid-in capital	6,325	5,736
Accumulated other comprehensive income (loss)	(190)	(56)
Retained earnings	1,324	172
Total stockholders' equity	6,864	5,257
Total liabilities and stockholders' equity	$18,797	$13,813

AMAZON.COM, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in millions)

	Common Stock		Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
	Shares	Amount					
Balance at December 31, 2007	416	$ 4	$(500)	$3,063	$ 5	$(1,375)	$1,197
Net income	—	—	—	—		645	645
Foreign currency translation losses, net of tax	—	—	—	—	(127)	—	(127)
Change in unrealized losses on available-for-sale securities, net of tax	—	—	—	—	(1)	—	(1)
Comprehensive income	—	—	—	—	—	—	517
Unrecognized excess tax benefits from stock-based compensation	—	—	—	(8)	—	—	(8)
Exercise of common stock options and conversion of debt	14	—		624	—	—	624
Repurchase of common stock	(2)	—	(100)		—	—	(100)
Excess tax benefits from stock-based compensation	—	—	—	154	—	—	154
Stock-based compensation and issuance of employee benefit plan stock	—	—	—	288	—	—	288
Balance at December 31, 2008	428	4	(600)	4,121	(123)	(730)	2,672
Net income	—	—	—	—	—	902	902
Foreign currency translation gains net of tax	—	—	—	—	62	—	62
Change in unrealized gains on available-for-sale securities, net of tax	—	—	—	—	4	—	4
Amortization of unrealized loss on terminated Euro Currency Swap, net of tax	—	—	—	—	1	—	1
Comprehensive income							969
Exercise of common stock options	7	—	—	19	—	—	19
Issuance of common stock for acquisition activity	9	1	—	1,144	—	—	1,145
Excess tax benefits from stock-based compensation	—	—	—	103	—	—	103
Stock-based compensation and issuance of employee benefit plan stock	—	—	—	349	—	—	349
Balance at December 31, 2009	444	5	(600)	5,736	(56)	172	5,257
Net income	—	—	—	—	—	1,152	1,152
Foreign currency translation gains net of tax	—	—	—	—	(137)	—	(137)
Change in unrealized gains on available-for-sale securities, net of tax	—	—	—	—	3	—	3
Comprehensive income							1,018
Exercise of common stock options	7	—	—	16	—	—	16
Excess tax benefits from stock-based compensation	—	—	—	145	—	—	145
Stock-based compensation and issuance of employee benefit plan stock	—	—	—	428	—	—	428
Balance at December 31, 2010	451	$ 5	$(600)	$6,325	$(190)	$ 1,324	$6,864

See accompanying notes to consolidated financial statements.