Analyzing Amazon

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**Free Cash Flow**

Free cash flow is the measure of a business’s financial performance based on the cash that a company is capable of producing after spending the money necessary to retain operations or increase its assets. (Kieso, Weygandt, & Warfield, 2016) Amazon has displayed the use of free cash flow by growing earnings, which occurs when the capital investments vital for growth surpass the present value of the cash flow resulting from those investments. (Bezos, 2009) The incredible growth of Amazon.com has put fear into the hearts of traditional retailers. Amazon's stock price has soared to amazing levels. However, it is often pointed out in the financial press that it took the company several years to report its first profit. (Kieso, Weygandt, & Warfield, 2016) By examining the income statement during the first four years of business, Amazon has proven favorable percentages of 100% for compound earnings growth and $150 million in increasing revenue, which is every investor's dream. (COMMISSION, 2009)

**Calculate**free cash flow for Amazon for the current and prior years.

|  |  |  |
| --- | --- | --- |
| $ in Millions | Current Year | Prior Year |
| Current assets | $31,327 | $24, 625 |
| Total assets | 54,505 | 40,159 |
| Current liabilities | 28,089 | 22,980 |
| Total liabilities | 43,764 | 30,413 |
| Cash provided by operations | 6,842 | 5,475 |
| Capital expenditures | 4,893 | 3,444 |
| Dividends paid | -- | -- |
| Net income (loss) | (241) | 274 |
| Sales | 88,988 | 74,452 |

*Free Cash Flow: Cash Provided by Operations - Capital Expenditures – Dividends Paid*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| ***Amazon*** | ***Cash provided by operations*** | ***Capital expenditures*** | ***Dividends paid*** | ***Free Cash Flow*** |
| Current Year | 6,842 | 4,893 | -- | **1,949** |
| Prior Year | 5,475 | 3,444 | -- | **2,031** |

**Evaluate**its ability to finance expansion from internally generated cash.

Thus far, Amazon has avoided purchasing large warehouses. Instead, it has used repositories of others. It is possible; however, that to increase customer satisfaction, the company may have to build its own warehouses. Amazon’s ability to finance expansion from internally generated cash would not be possible. (Kieso, Weygandt, & Warfield, 2016) If this happens:

***Describe how your impression of its ability to fund expansion change.***

Amazon’s free cash flow listed in the current and prior years are $1,949 million and $2,031 million. Amazon displays a decreasing trend in profitability and cash flow provided by operations. If Amazon wanted to rely on the investment required to build its own warehouses, the free cash flow demonstrates that Amazon may not be capable of financing the warehouses' expansion with internal funding.

***Project any potential implications of the change in Amazon's cash provided by operations from the prior year to the current year.***

The cash provided from operations did decrease in the current year compared to the previous year by $82 million. The caused by the lowering of profitability causes the $82 million decrease along with the net increase in working capital and other non-cash income adjustments. Nevertheless, observing the cash flow statement of Amazon shows a negative net loss of $241 million in the current year. Another implication of Amazon’s change in cash provided by operations from a prior year to a current year could have been affected by earnings before interest (EBITDA), taxes, depreciation, and amortization. (COMMISSION, 2009) Earnings before interest are not considered a cash flow, but Amazon would have to review the capital expenditures needed to generate the cash flow for financing the warehouses to expand their company.

Amazon’s financial goal is to provide excellent customer satisfaction with a long-term growth in free cash flow per share. (COMMISSION, 2009) Amazon’s free cash flow per share will show how the company is capable of paying debts, dividends, and promote the expansionary growth of the company by dividing the free cash flow by the total sum of outstanding shares to keep track of the changes in earnings per share for shareholders. As long as Amazon keeps increasing the operating profit and managing the working capital and capital expenditures, then the company will be able to expand with internally generated cash in the future.

**References**

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