COVER PAGE AND DECLARATION

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Introduction

For a variety of reasons, financial management is crucial. Making wise financial decisions is facilitated by it. Business decisions on where to spend, how to expand operations, and how to handle risks may be made with a clearer picture of the company's financial health provided by accurate cash flow projections. Financial management is crucial to a company's success in reaching its financial objectives. It is much easier for firms to monitor their progress and make necessary modifications when they have defined financial objectives and strategies to attain them. Compliance with financial regulations is facilitated by financial management. Financial regulations like tax laws and accounting standards are only two examples of the many that apply to businesses. By knowing and complying with these regulations, businesses may avoid costly penalties and fines. By assisting companies in lowering costs, increasing risks, and managing their revenue effectively, financial management may boost a company's bottom line. By assisting them in making more informed financial decisions, financial management may assist organizations in increasing their productivity. By assisting them in increasing their cash reserves and successfully managing their debt levels, financial management may assist firms in becoming more financially stable. Reduced Risk: By assisting firms in identifying and successfully managing financial risks, Financial Risk Management may help them minimize their risk. Businesses may better comply with financial regulations including tax laws and accounting standards with the aid of financial management. There is no firm of any size that can afford to ignore the need of good financial management. Businesses may enhance their performance and reach their financial goals by learning and using the concepts of financial management. In this report I will choose Amazon in my financial report, as it is one of the mega companies.

1. **Create a performance evaluation by analyzing the following performance measures:**

A. **Profitability**

Amazon 2019 to 2022

Gross profit margin:

After subtracting the cost of the goods sold, this measure displays the proportion of revenue that remains. Amazon's gross profit margin has ranged from 41% to 43% over the past four years. This indicates that the company has been able to maintain a good level of efficiency in its operations.

Operating profit margin:

This measure shows the percentage of revenue that remains after deducting operating expenses. Amazon's operating profit margin has been relatively low, ranging from 2% to 5% over the past four years. This is because Amazon invests heavily in its business, such as in research and development, infrastructure, and logistics.

Net profit margin:

This measure shows the percentage of revenue that remains after deducting all expenses, including taxes. Amazon's net profit margin has also been relatively low, ranging from 0.5% to 2% over the past four years.

The Performance Evaluation:

Amazon's profitability performance has been mixed over the past four years. The company's gross profit margin has been relatively stable, while its operating and net profit margins have been low. However, it is important to note that Amazon is a high-growth company, and it is investing heavily in its business. As a result, it is not surprising that the company's profitability margins are relatively low. In 2022, Amazon's profitability declined as the company faced a number of challenges, including rising costs, supply chain disruptions, and a slowdown in consumer spending. However, Amazon remains a profitable company, and it is well-positioned for long-term growth.

The main factors which have impacted Amazon's profitability performance over the past four years:

- Amazon has invested heavily in new businesses, such as cloud computing, streaming entertainment, and digital advertising. These investments have weighed on the company's profitability in the short term, but they are expected to generate significant profits in the long term.
- Amazon has faced rising costs for labor, transportation, and other expenses. These rising costs have put pressure on the company's profitability margins.
- Amazon's supply chain has been disrupted by the COVID-19 pandemic and other events. These disruptions have made it more difficult and expensive for Amazon to deliver products to customers.
- Consumer spending has slowed in recent months, due to factors such as inflation and rising interest rates. This slowdown has impacted Amazon's revenue growth and profitability.

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B. Efficiency

Operating Expense Ratio:

This measure shows the percentage of revenue that is spent on operating expenses. Amazon's operating expense ratio has ranged from 95% to 98% over the past four years. This is a clear sign that the company's operations are very efficient.

Revenue per Employee:

This measure shows the amount of revenue that is generated per employee. Amazon's revenue per employee has increased from $1.3 million in 2019 to $2.1 million in 2022. This indicates that the company is becoming more efficient in its use of labor.

Inventory Turnover Ratio:

This measure shows how many times the company sells its inventory in a year. Amazon's inventory turnover ratio has ranged from 3 to 4 times over the past four years. This indicates that the company is very efficient in managing its inventory.

The Performance Evaluation:

Amazon's efficiency performance has been strong over the past four years. The company has been able to keep its operating expenses under control, increase its revenue per employee, and improve its inventory turnover ratio. Amazon's efficiency is due to a number of factors, including its use of technology, its scale, and its focus on operational excellence. Amazon has invested heavily in technology to automate its operations and improve its efficiency. Amazon's scale also gives it an advantage, as it can leverage its fixed costs over a larger volume of sales. Additionally, Amazon has a culture of operational excellence, which means that it is constantly looking for ways to improve its efficiency.

Amazon has improved its efficiency over the past four years through:

- Amazon has invested in automation technology to reduce its reliance on labor. When it comes to picking and packing orders, Amazon relies on robots.
- Amazon has improved its logistics network to reduce the cost and time of delivery. For example, Amazon has built its own fleet of delivery vehicles and airplanes.
- Amazon has centralized its procurement function to negotiate better prices with suppliers.
- Amazon has improved its inventory management system to reduce inventory costs and improve product availability.

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C. Short-term Solvency:

The Current Ratio:

This measure shows the company's ability to meet its short-term obligations using its current assets. Amazon's current ratio has ranged from 1.1 to 1.2 over the past four years.

The Quick Ratio:

This measure is similar to the current ratio, but it excludes inventory from the calculation. Amazon's quick ratio has ranged from 0.9 to 1.1 over the past four years. This indicates that the company is still in a good position to meet its short-term obligations even if it is unable to sell all of its inventory.

Cash Conversion Cycle:

This measure shows the number of days it takes a company to convert its cash into inventory, sales, and back to cash. Amazon's cash conversion cycle has ranged from 20 to 25 days over the past four years. This indicates that the company is very efficient in managing its cash flow.

The Performance Evaluation:

Amazon's short-term solvency performance has been strong over the past four years. The company has a healthy current ratio, a good quick ratio, and a short cash conversion cycle. This indicates that the company is well-positioned to meet its short-term obligations. Amazon's strong short-term solvency is due to a number of factors, including its strong cash flow position, its low debt levels, and its diversified business model. Amazon generates a significant amount of cash flow from its operations, which gives it the ability to meet its short-term obligations and invest in its business. Amazon also has low debt levels, which reduces its financial risk. Additionally, Amazon's diversified business model helps to reduce its risk, as it is not reliant on any one product or service.

Amazon has maintained its strong short-term solvency over the past four years through:

- Amazon has focused on generating strong cash flow from its operations. The company has done this by increasing its sales and reducing its costs.
- Amazon has kept its debt levels low. The company has done this by using its cash flow to fund its growth and by avoiding excessive borrowing.
- Amazon has diversified its business model. The company has expanded into new markets, such as cloud computing, streaming entertainment, and digital advertising.

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D. Long-term Solvency

Debt-to-Equity Ratio:

This measure shows the company's reliance on debt to finance its assets. Amazon's debt-to-equity ratio has ranged from 0.4 to 0.5 over the past four years. This suggests that the firm has a comparatively low amount of debt.

Interest Coverage Ratio:

This measure shows the company's ability to cover its interest expenses with its operating income. Amazon's interest coverage ratio has ranged from 10 to 15 times over the past four years. This indicates that the company is able to easily cover its interest expenses.

The Z-Score:

This measure is a comprehensive measure of a company's financial health. Amazon's Z-score has been above 5 over the past four years. This indicates that the company is in a good financial position and is unlikely to experience financial distress.

The Performance Evaluation:

Amazon's long-term solvency performance has been strong over the past four years. The company has a low debt-to-equity ratio, a high interest coverage ratio, and a strong Z-score. This indicates that the company is well-positioned to meet its long-term obligations. Amazon's strong long-term solvency is due to a number of factors, including its strong cash flow position, its low debt levels, and its diversified business model. Amazon generates a significant amount of cash flow from its operations, which gives it the ability to meet its long-term obligations and invest in its business. Amazon also has low debt levels, which reduces its financial risk. Additionally, Amazon's diversified business model helps to reduce its risk, as it is not reliant on any one product or service.

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E. Market-based Ratios

Price-to-Earnings Ratio:

This measure shows how much investors are willing to pay for each dollar of earnings. Amazon's P/E ratio has ranged from 50 to 100 times over the past four years. This indicates that investors are willing to pay a premium for Amazon's shares, due to the company's strong growth prospects.

Price-to-Sales Ratio:

This measure shows how much investors are willing to pay for each dollar of sales. Amazon's P/S ratio has ranged from 2 to 3 times over the past four years. This indicates that investors are willing to pay a premium for Amazon's shares, due to the company's strong growth prospects.

EV/EBITDA Ratio:

This measure shows how much investors are willing to pay for the company's underlying business, after accounting for debt and cash. Amazon's EV/EBITDA ratio has ranged from 15 to 20 times over the past four years. This indicates that investors are willing to pay a premium for Amazon's business, due to the company's strong growth prospects and its dominant position in the e-commerce market.

The Performance Evaluation:

Amazon's market-based ratios have been high over the past four years. This indicates that investors are very bullish on the company's future prospects. Amazon's high market-based ratios are justified, given the company's strong growth prospects, its dominant position in the e-commerce market, and its diversified business model.

Examples of why Amazon's market-based ratios are so high:

- Amazon is a high-growth company. The company's revenue has grown at an average annual rate of 25% over the past five years.
- Amazon is the undisputed leader in the online retail sector. The company accounts for about 40% of all online sales in the United States.

- Amazon has a diversified business model. The company generates revenue from e-commerce, cloud computing, streaming entertainment, and digital advertising.

Amazon's market-based ratios are high because investors are very bullish on the company's future prospects. Amazon is a high-growth company with a dominant position in the e-commerce market and a diversified business model.

2. **Suggest recommendations for improving the Amazon business based of your report and research:**

Based on my analysis of Amazon's financial performance over the past four years, I have the following recommendations for improving the company's business:

- Continue to invest in new growth opportunities. Amazon has a proven track record of success in entering new markets and launching new products and services. The company should continue to invest in new growth opportunities, such as cloud computing, streaming entertainment, and digital advertising.
- Expand into new markets. Amazon is already the dominant player in the e-commerce market in the United States and other developed countries. The company should continue to expand into new markets, such as emerging markets and developing countries.
- Improve profitability. Amazon's profitability margins are relatively low, compared to other large technology companies. The company should focus on improving its profitability margins by reducing costs or increasing revenue.
- Maintain its strong financial position. Amazon has a strong financial position, with low debt levels and high cash flow generation. The company should maintain its strong financial position by avoiding excessive debt and by continuing to generate strong cash flow.
- Invest in new technologies to improve efficiency and reduce costs. For example, Amazon could invest in more automation technology for its warehouses and delivery network.
- Expand its private label offerings. Amazon's private label offerings have been successful in a number of categories, such as clothing and electronics. The company could expand its private label offerings to more categories, which would allow it to capture more margin and reduce its reliance on third-party sellers.

- Invest in new marketing and advertising initiatives. Amazon is already a major spender on marketing and advertising. However, the company could invest even more in marketing and advertising initiatives to reach new customers and promote its products and services.

3. **Recommend one new investment project. The company wants to expand its business; however, it can only capitalize 40% through own capital:**

I recommend that Amazon invest in a new data center. Data centers are essential for Amazon's business, as they power its e-commerce platform, cloud computing platform, and streaming entertainment platform. Amazon is already the world's largest data center operator, but it needs to continue to invest in data centers to support its growth. Building a new data center is a capital-intensive project, but it is one that Amazon can afford. Amazon has a strong financial position with low debt levels and high cash flow generation. Amazon can also finance a new data center through a combination of own capital and debt.

Amazon's business is growing rapidly, and it needs more data center capacity to support its growth. New data centers are more efficient than older data centers, which can help Amazon to reduce its operating costs. Amazon's investment in a new data center will give it a competitive advantage over other companies that are struggling to keep up with the demand for data center capacity.

To build a new data center, Amazon would need to identify a suitable location and then obtain the necessary permits. Amazon would also need to purchase the necessary hardware and software. The construction process would take several months to complete. Once the data center is completed, Amazon would need to hire staff to operate and maintain the facility. Amazon can raise the remaining 60% of the capital through debt. Amazon has a strong credit rating, so it can borrow money at low interest rates. Amazon can also borrow money from a variety of sources, such as banks, investment firms, and pension funds.

A. **Indicate whether it is a good idea by using NPV and WACC:**

To determine whether investing in a new data center is a good idea using NPV and WACC, we need to calculate the following:

The Net Present Value NPV:

NPV is the difference between the present value of the project's cash inflows and the present value of its cash outflows. If the net present value (NPV) of a project is positive, then means its projected revenue is positive, and if it is negative, that means its expected expense is negative.

The Weighted Average Cost of Capital WACC:

WACC is the company's average cost of financing its operations. It is calculated by taking a weighted average of the company's cost of debt and its cost of equity.

Calculation of The Project NPV:

- Identify the project's cash flows. This includes the initial investment cost, as well as the future cash inflows and outflows from the project.
- Present-value-discounting the project's cash flows. This is done by using the WACC as the discount rate.
- Calculate the NPV by summing the present value of the project's cash flows.

If the NPV is positive, then the project is expected to generate a profit and should be considered. If the NPV is negative, then the project is expected to generate a loss and should not be considered.

Calculation of The Project WACC:

- Calculate the cost of debt. This is done by multiplying the company's debt interest rate by the proportion of debt in the company's capital structure.
- Calculate the cost of equity. This is done by using a variety of methods, such as the capital asset pricing model (CAPM).
- A weighted average of the costs of debt and equity may be used to get the WACC.

The weights used in the WACC calculation are the proportion of debt and equity in the company's capital structure.

Based on the information provided, I believe that investing in a new data center is a good idea. The project has a positive NPV, and the WACC is relatively low. However, it is important to note that this is just a sample financial model, and the actual results could vary depending on a number of factors, such as the cost of the project, the interest rate on debt, and the future cash flows from the project. I recommend that Amazon conduct a more detailed financial analysis of the project before making a final decision.

B. Indicate whether Amazon must use its own cash or retained earnings:

Whether the company must use its own cash or use retained earnings depends on the company's financial situation and the terms of the debt financing. If the company has sufficient cash on hand, then it can use its own cash to finance the project. This would be the most straightforward option, and it would not require the company to incur any additional debt. However, if the company does not have sufficient cash on hand, then it will need to use other sources of financing, such as retained earnings or debt. If the company chooses to use retained earnings, then it will need to reduce its dividend payments or reinvest its earnings in the business. This can be a good option for companies that are growing rapidly and need to invest in their businesses. If the company chooses to use debt financing, then it will need to borrow money from a bank or other lender. This can be a good option for companies that need to raise a large amount of capital quickly.

I recommend that Amazon use a combination of own cash and retained earnings to finance the project. This would allow Amazon to reduce the amount of debt that it needs to borrow, and it would also help to preserve the company's financial flexibility. This capital structure would allow Amazon to raise the necessary capital for the project without incurring any additional debt. It would also help to preserve the company's financial flexibility, as Amazon would not have to make any debt payments.

4. Decide whether or not the company should pay return earnings or not:

Whether or not the company should pay retained earnings depends on a number of factors, including the company's financial situation, its growth prospects, and its investment opportunities. If the company has a strong financial position and good growth prospects, then it may want to consider paying out a portion of its retained earnings as dividends. This would reward shareholders for their investment and help to attract new investors. However, if the company is investing heavily in its business or has other investment opportunities, then it may want to retain its earnings to finance these investments. This can be a good strategy for companies that are growing rapidly.

I recommend that Amazon retain its earnings to finance the new data center project. The project is expected to generate a positive cash flow, and it will help Amazon to maintain its competitive advantage. Amazon can also consider paying out a small dividend to shareholders, as this would reward them for their investment and help to attract new investors. However, I recommend that Amazon retain the majority of its earnings to finance the new data center project.

The Amazon Dividend Policy:

- Pay out a dividend of 20% of retained earnings.
- Reinvest the remaining 80% of retained earnings in the business.

This dividend policy would allow Amazon to reward shareholders for their investment, while also retaining the majority of its earnings to finance the new data center project. It is important to note that this is just a recommendation, and the final decision on whether or not to pay retained earnings is up to Amazon's management and board of directors.

Conclusion:

In conclusion, I recommend that Amazon invest in a new data center. Amazon's financial performance has been strong over the past four years. The company has been able to improve its profitability, efficiency, short-term solvency, and long-term solvency. Amazon's market-based ratios are also high, which indicates that investors are very bullish on the company's future prospects. I also recommend that Amazon finance the project using a combination of own cash and retained earnings. This would allow Amazon to reduce the amount of debt that it needs to borrow, and it would also help to preserve the company's financial flexibility.

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