

FIN 6060: Financial Decision Making
Module 1 - Company Analysis Worksheet

Complete this worksheet using the directions within to guide you. Submit your completed worksheet in the “Assignment and Grades” tab in your course menu. When you have submitted this assignment for grading, please return to Module 1 for a module wrap-up.

Company Analysis

Directions: Obtain end-of-year financial statements (balance sheets and income statements) for the previous three years from [Amazon](#) and [Walmart](#). Conduct a ratio, horizontal, and vertical analysis for each company. Then answer the following questions.

How would you evaluate the financial strength of Amazon and Walmart?

Based on the provided financial ratios and metrics, here's an evaluation of the financial strength of Amazon and Walmart:

Profitability:

Amazon:

- Amazon's profitability ratios, especially the gross profit margin and net profit margin, exhibit high percentages, indicating that the company is exceptionally profitable. However, it's essential to note that the gross profit margin showed a significant decrease from 2021 to 2022, which might warrant further investigation. The exceptionally high net profit margin in both years suggests that Amazon efficiently generates profit from its revenue.

Walmart:

- Walmart's profitability ratios also show healthy gross and net profit margins, though at a lower level compared to Amazon. The margins are consistent between 2022 and 2023, indicating that Walmart maintains profitability while managing costs effectively.

Liquidity:

Amazon:

- Amazon's current ratio is significantly above 1 for both years, suggesting a robust short-term liquidity position. The company can comfortably cover its short-term obligations. However, a very high current ratio could imply that assets might not be efficiently utilized.

Walmart:

- Walmart's current ratio for 2023 is below 1, indicating a potential short-term liquidity concern. This suggests that Walmart may need to manage its short-term assets and liabilities more efficiently to meet its immediate obligations. It's essential to closely monitor this ratio to ensure adequate liquidity.

Debt Management:

Amazon:

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- Amazon's debt-to-equity ratio is relatively low for both years, indicating a conservative approach to debt financing. The interest coverage ratio, although lower in 2022 compared to 2021, still demonstrates the ability to comfortably cover interest expenses.

Walmart:

- Walmart maintains a low debt-to-equity ratio for both years, reflecting a conservative debt management strategy. The interest coverage ratio indicates the ability to cover interest expenses, although it decreased slightly from 2022 to 2023.

In summary:

- Both Amazon and Walmart are financially strong companies, but their financial profiles differ due to their business models and industries.
- Amazon exhibits exceptionally high profitability ratios, reflecting its dominance in e-commerce and technology.
- Walmart maintains healthy profitability ratios and a conservative approach to debt management.
- Amazon has a robust short-term liquidity position, while Walmart's current ratio for 2023 suggests a need for improved short-term liquidity management.
- Both companies have manageable debt levels and can cover their interest expenses, although Amazon's interest coverage ratio is lower.

Is Amazon in a strong or weak financial position?

Amazon is in a strong financial position based on the provided financial data and analysis. Here are some key reasons for this assessment:

- Profitability: Amazon demonstrates exceptionally high profitability, with both gross profit margins and net profit margins well above 100% for the years 2021 and 2022. These figures indicate that Amazon efficiently generates profits from its operations. However, it's important to note that extremely high profit margins like those shown may be influenced by accounting adjustments or other factors, so a deeper analysis would be necessary to understand the underlying profitability.
- Liquidity: Amazon maintains a robust short-term liquidity position, as indicated by its current ratio significantly above 1 for both years (6.85 in 2022 and 14.13 in 2021). This suggests that Amazon has the ability to comfortably cover its short-term obligations.
- Debt Management: Amazon follows a conservative debt management strategy, with a low debt-to-equity ratio. This indicates that Amazon relies less on debt for financing its operations and investments. The interest coverage ratio also shows the ability to cover interest expenses comfortably.

However, it's important to keep in mind that financial analysis should consider various factors, including industry benchmarks, competitive positioning, and qualitative aspects. Additionally, extremely high profit margins may warrant further investigation to

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understand the nature of the profitability. While Amazon appears to be in a strong financial position based on the provided data, a comprehensive evaluation should include a broader range of financial metrics and qualitative considerations for a more complete assessment of the company's financial health.

Is Walmart in a strong or weak financial position?

Walmart appears to be in a relatively strong financial position based on the provided financial data and analysis. Here are some key reasons for this assessment:

- **Profitability:** Walmart maintains healthy profitability, with both gross profit margins and net profit margins showing stability over the years 2022 and 2023. While not as exceptionally high as Amazon's, these margins are solid and indicate that Walmart is effectively managing its costs and generating profits.
- **Liquidity:** Walmart's liquidity, as indicated by the current ratio, is strong for 2022. However, there is a potential short-term liquidity concern for 2023, as the current assets appear to be lower than current liabilities. This suggests that Walmart may need to manage its short-term assets and liabilities more efficiently to meet its immediate obligations.
- **Debt Management:** Walmart follows a conservative debt management strategy, with low debt-to-equity ratios for both years. This indicates that Walmart relies less on debt for financing its operations, which can be a sign of financial strength. The interest coverage ratio also indicates the ability to cover interest expenses, although there was a slight decrease from 2022 to 2023.

Overall, Walmart's financial position is strong, but there may be areas, such as short-term liquidity in 2023, that require attention and monitoring. It's important to note that financial analysis should consider various factors, including industry benchmarks, competitive positioning, and qualitative aspects, and regular monitoring of financial health is crucial for any company to maintain and improve its position over time.

Which company (Amazon or Walmart) is in a better financial position? Explain how you know this.

Based on the provided financial data and analysis, it is challenging to definitively determine which company, Amazon or Walmart, is in a better financial position because both companies have their strengths and weaknesses, and they operate in different industries with distinct business models. Here's a summary of their financial positions:

Amazon:

- Amazon exhibits exceptionally high profitability, with extremely high gross profit margins and net profit margins. However, these profit margins may be influenced by accounting adjustments or other factors.
- Amazon has a robust short-term liquidity position, as indicated by its current ratio significantly above 1 for both years.
- Amazon follows a conservative debt management strategy with a low debt-to-equity ratio and can cover its interest expenses comfortably.

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Walmart:

- Walmart maintains healthy profitability with solid gross and net profit margins, indicating effective cost management.
- Walmart's liquidity is strong for 2022, but there is a potential short-term liquidity concern for 2023, as the current assets appear to be lower than current liabilities.
- Walmart follows a conservative debt management strategy with low debt-to-equity ratios and can cover its interest expenses, although there was a slight decrease in interest coverage from 2022 to 2023.

In summary, both Amazon and Walmart have their financial strengths, but they also have specific areas that may require attention. The determination of which company is in a better financial position depends on the specific factors that are most important to you as an investor or stakeholder.

If exceptionally high profit margins are a primary focus, Amazon may appear stronger in that regard. However, if you value a more conservative approach to debt management and short-term liquidity, Walmart may be viewed as having a stronger financial position.

Ultimately, a comprehensive financial analysis should consider a broader range of financial metrics, qualitative factors, industry benchmarks, and individual investment goals and preferences to make a well-informed assessment of a company's financial health. Additionally, financial positions can change over time, so continuous monitoring is essential for investors and stakeholders.

Would you use either Amazon or Walmart to establish benchmarks for the company you currently work for? Why?

When establishing benchmarks for Redge Coop, a digital cooperative society, it's important to consider the specific industry, business model, and goals of Redge Coop. Both Amazon and Walmart are retail giants operating in the traditional and e-commerce sectors, respectively. While they can provide some valuable insights, benchmarking against them might not be directly applicable for Redge Coop. Here's why:

- **Different Industry:** Redge Coop operates in the digital cooperative society sector, which may have unique dynamics, customer behavior, and financial requirements compared to the retail industry where Amazon and Walmart are prominent players. Benchmarking against companies in a similar industry would provide more relevant insights.
- **Business Model:** The cooperative business model of Redge Coop, where members collectively own and manage the organization, differs significantly from the for-profit models of Amazon and Walmart. Cooperative societies have different financial objectives and may prioritize member benefits over profit maximization. Therefore, benchmarking against traditional corporations may not align with Redge Coop's values and goals.
- **Scale and Complexity:** Amazon and Walmart are among the largest and most complex companies globally. Their scale, international operations, and diversified business units may not accurately reflect the financial needs and capabilities of a digital cooperative society. Redge Coop's size and operational focus should be considered when selecting benchmarks.

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- **Financial Metrics:** The financial metrics and ratios that matter most to Redge Coop, such as membership growth, member engagement, digital platform efficiency, and community impact, may differ significantly from those of Amazon and Walmart. Benchmarking against these specific metrics would be more relevant for Redge Coop.
- **Values and Objectives:** Redge Coop likely has its unique values, objectives, and social impact goals that may not align with the profit-driven goals of Amazon and Walmart. Benchmarking against companies that share similar values and objectives would be more meaningful.

To establish benchmarks for Redge Coop, it's advisable to consider industry-specific cooperative societies or organizations with a similar business model and values. These benchmarks would provide more relevant insights into the cooperative's performance and help it make informed decisions tailored to its unique characteristics and objectives.

If you were the CEO of each company, what recommendations would you make to improve the company's financial performance?

Recommendations for Amazon:

If I were the CEO of Amazon, here are some recommendations I would consider to improve the company's financial performance:

- **Diversify Revenue Streams:**
 - Continue expanding and diversifying the company's revenue streams beyond e-commerce. This could include further investments in Amazon Web Services (AWS), Amazon Advertising, and other high-growth segments.
- **Operational Efficiency:**
 - Focus on optimizing operational efficiency across the supply chain and fulfillment centers to reduce costs and improve profit margins. Automation and technology can play a crucial role in achieving this.
- **International Expansion:**
 - Explore opportunities for further international expansion in markets with high growth potential. Entering emerging markets can provide new sources of revenue.
- **Prime Membership Growth:**
 - Encourage the growth of Amazon Prime memberships by enhancing the value proposition through benefits such as exclusive content, faster delivery options, and expanded Prime Video and Prime Music libraries.
- **Innovation and R&D:**
 - Continue investing in research and development to drive innovation in areas such as artificial intelligence, automation, and drone delivery. These innovations can improve efficiency and customer experience.
- **Sustainability Initiatives:**
 - Accelerate sustainability initiatives to reduce the company's carbon footprint and promote environmentally friendly practices. Sustainability can be a key focus for consumers and investors.
- **Customer-Centric Approach:**

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- Maintain a strong customer-centric approach by actively listening to customer feedback and adapting products and services accordingly. Happy and loyal customers are more likely to drive long-term revenue.
- Strategic Acquisitions:
 - Explore strategic acquisitions that align with Amazon's growth strategy and can provide access to new markets, technologies, or customer segments.
- Digital Advertising Growth:
 - Continue growing the digital advertising business by offering innovative advertising solutions for both Amazon sellers and external advertisers.
- Supply Chain Resilience:
 - Strengthen supply chain resilience and diversify suppliers to mitigate risks associated with disruptions like the COVID-19 pandemic.
- Employee Development:
 - Invest in employee development, well-being, and retention. A motivated and skilled workforce can contribute to productivity and innovation.
- Financial Discipline:
 - Maintain financial discipline by carefully managing expenses and investments to ensure a healthy balance between growth and profitability.
- Long-Term Vision:
 - Communicate a clear long-term vision to investors and stakeholders, emphasizing Amazon's commitment to sustainable growth and value creation over time.

These recommendations are aligned with Amazon's current strategic priorities, but they should be adapted and refined based on changing market conditions and the company's evolving needs. Additionally, effective execution and ongoing monitoring are essential to achieving these objectives and improving Amazon's financial performance.

Recommendations for Walmart:

If I were the CEO of Walmart, here are some recommendations I would consider to improve the company's financial performance:

- E-commerce Expansion:
 - Accelerate investments in e-commerce and digital technology to compete more effectively with online retailers. Enhance the online shopping experience, including user interface, personalization, and fulfillment options.
- Omnichannel Integration:
 - Strengthen the integration of physical stores and e-commerce to create a seamless omnichannel shopping experience for customers. Enable features like "buy online, pick up in-store" and same-day delivery.
- Private Label Brands:

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- Expand Walmart's private label brands and product offerings to improve margins and offer more value to customers.
- Supply Chain Optimization:
 - Optimize the supply chain to reduce costs, improve inventory management, and enhance product availability. Implement advanced data analytics and automation to streamline operations.
- International Growth:
 - Focus on international expansion in markets with growth potential. Tailor strategies to suit the preferences and needs of local consumers.
- Sustainability Initiatives:
 - Enhance sustainability efforts by reducing the environmental impact of operations, including efforts to reduce waste, energy consumption, and greenhouse gas emissions. Promote sustainable products and practices to attract eco-conscious consumers.
- Customer Experience:
 - Prioritize customer experience by investing in employee training and customer service. Ensuring a pleasant in-store and online shopping experience can lead to increased customer loyalty.
- Digital Advertising:
 - Grow Walmart's digital advertising business by leveraging customer data to offer targeted advertising solutions to brands and advertisers.
- Healthcare Services:
 - Expand Walmart's healthcare services and clinics within stores, providing accessible and affordable healthcare options to customers. This can drive foot traffic and boost sales.
- Diversify Revenue Streams:
 - Explore new revenue streams, such as financial services, to diversify the company's income sources and enhance customer engagement.
- Employee Welfare:
 - Invest in employee welfare, including competitive wages, benefits, and career development opportunities. A motivated and satisfied workforce can contribute to improved customer service and operational efficiency.
- Strategic Partnerships:
 - Form strategic partnerships and collaborations with technology companies or other businesses to enhance offerings and access new markets.
- International Supply Chain Resilience:
 - Strengthen the resilience of the international supply chain to mitigate risks associated with global disruptions, such as supply chain disruptions and geopolitical tensions.
- Financial Discipline:

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- Maintain financial discipline by efficiently managing expenses, inventory, and capital investments to ensure sustainable growth and profitability.
- Community Engagement:
 - Deepen community engagement through philanthropic initiatives and support for local communities, strengthening Walmart's image as a socially responsible company.

These recommendations align with Walmart's current strategies and priorities, but they should be adapted and refined based on evolving market conditions and the company's specific needs and objectives. Effective execution and continuous monitoring are critical for realizing these improvements and enhancing Walmart's financial performance.

