

# Amazon

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# Agenda

- Fund Strategy
- Review of Current Positions
- Overview of Divestments
- Company Overview
- SWOT Analysis
- Ratio Analysis
- Valuation
- Final Recommendation

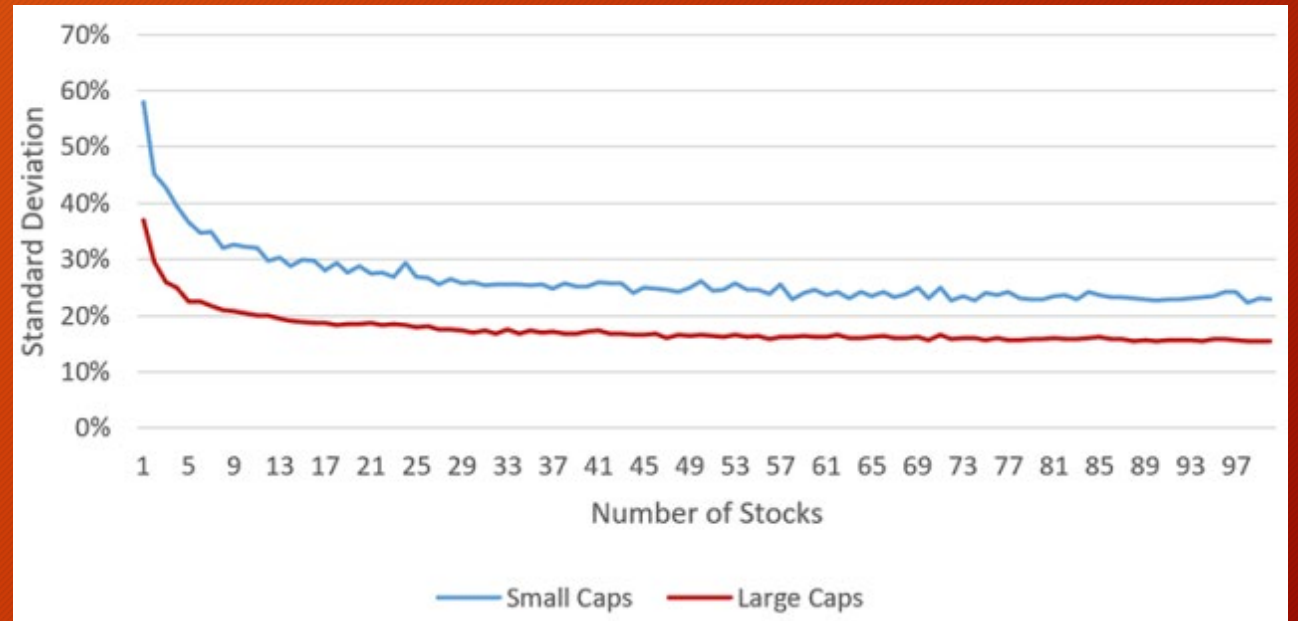
# Executive Summary

- Review holdings of AMZN, ED, and MCD
- Increase our holdings in AMZN to around 5% of Celani Portfolio (~\$150k)
- We are recommending to sell our holdings of ED and MCD to increase our position of AMZN
- Can also utilize cash balance in Celani fund if we want to continue to hold these positions



# Celani Fund Strategy

- We can effectively achieve diversification in our large-cap fund with a concentrated portfolio of just 15 to 20 positions
- Currently 40 holdings, aiming to decrease this to ~20
- Less positions makes it easier to track how each stock is performing and execute exit plans



CFA Institute Enterprising Investor

# Current Positions

## AMZN

- 840 shares purchased at \$48.46 in December 2023
- Current Price: \$187.97
- Gain: 288%
- Current Weight: 1.67%

Amazon.com Inc		
Consensus Rating	▼	4.86
Buys	94.9%	75
Holds	5.1%	4
Sells	0.0%	0
12M Tgt Px	63/89	219.02
Last Price		192.52
Pricing Currency		USD
Return Potential		13.8%
LTM Return		49.1%

## ED

- 280 shares purchased at \$61.25 in May 2013
- Current Price: \$104.05
- Gain: 70%
- Current Weight: .95%

Consolidated Edison Inc		
Consensus Rating	▼	2.47
Buys	10.5%	2
Holds	52.6%	10
Sells	36.8%	7
12M Tgt Px	16/22	98.75
Last Price		102.78
Pricing Currency		USD
Return Potential		-3.9%
LTM Return		17.2%

## MCD

- 80 shares purchased at \$92.67 in May 2012
- Current Price: \$303.69
- Gain: 228%
- Current Weight: .79%

McDonald's Corp		
Consensus Rating	▼	4.32
Buys	65.9%	27
Holds	34.1%	14
Sells	0.0%	0
12M Tgt Px	34/46	301.76
Last Price		300.07
Pricing Currency		USD
Return Potential		0.6%
LTM Return		12.9%



# Divestment Overview

- ED and MCD have reached, or are very close to their target price
- Both have relatively small holdings of less than \$30k
- Have seen very strong returns from these positions
- Since we are attempting to clean up this fund, we may have to sell some of our positions that have/are performing well, however, having a manageable portfolio is more important than the returns on smaller holdings

# Sector Impact

- Consumer Discretionary tends to be driven by macro considerations such as the direction of interest rates, will benefit from rate cuts
- AMZN and MCD are both Consumer Discretionary
  - If we invest additional funds into AMZN, our weight will increase
- ED is utilities, which we are overweight in by 2.17%
  - Would decrease to 1.11%



# Amazon

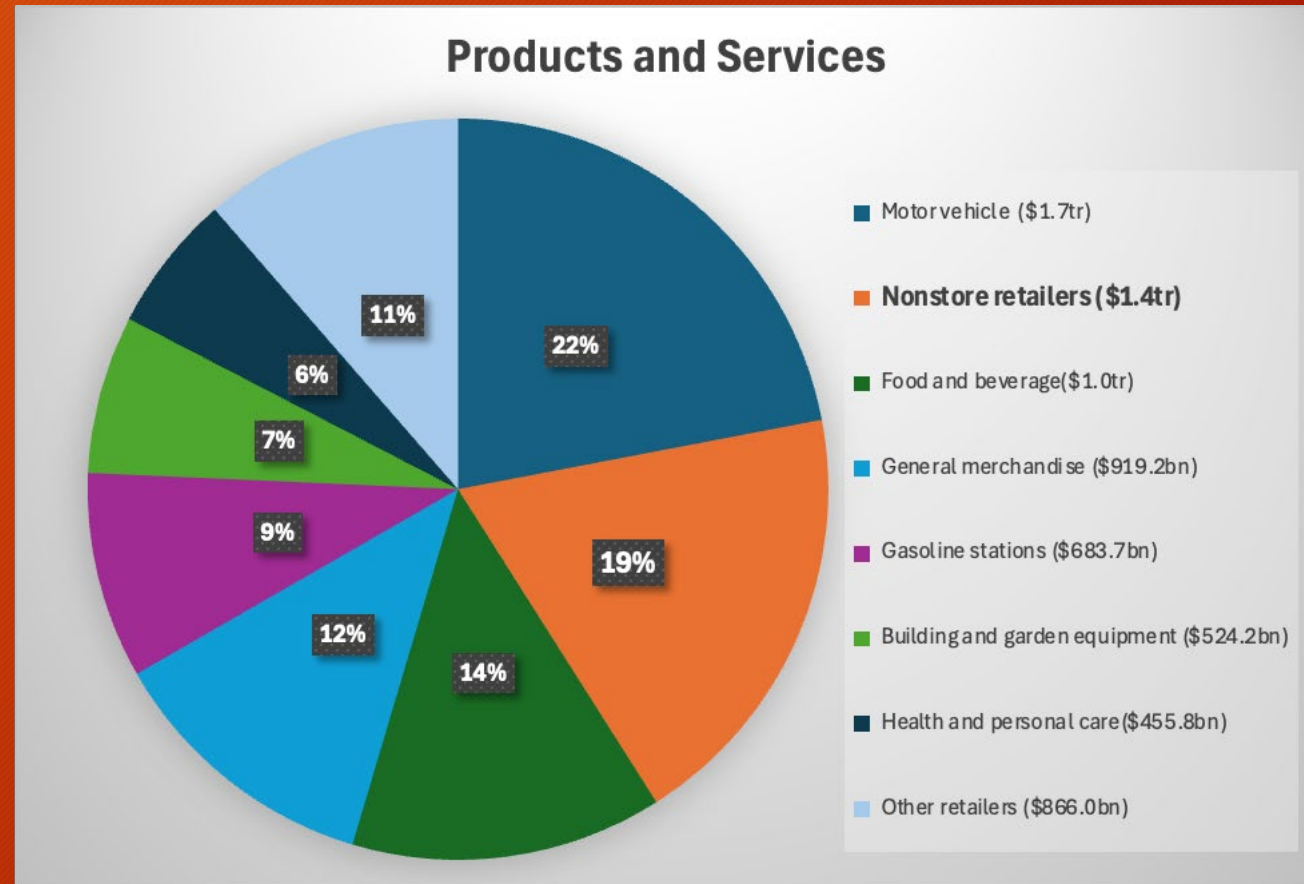
- Largest online retail service selling a large variety of products
- Gained popularity in late 2001
- Performance skyrocketed during pandemic
  - Seeing 44% increase in sales and 220% increase in profit in Q1 2021
- Has marketplaces in over 20 countries and is accessible to over 100 countries





# Retail Industry Overview

- Retail Trade Industry: \$7.6T Revenue
- Consumer spending expected to increase over next 5 yrs
- Revenue primarily received from customers aging 25-64
- Amazon makes up 3.8% of this industry, led only by Walmart at 4.7%
  - Leads Walmart in e-commerce



# SWOT Analysis of Amazon

## Strengths

- Strong brand recognition and reputation
- Differentiation and Innovation
- Large returning customer base
- Diverse product offerings

## Weaknesses

- Data security concerns
- Relies on third-party sellers
- Unsuccessful Product Launches (Fire Phone and Amazon Wallet)
- Employee Strikes

## Opportunities

- Expansion in emerging market (India and Southeast Asia)
- More physical stores
- Cloud market
- Investment in new ventures

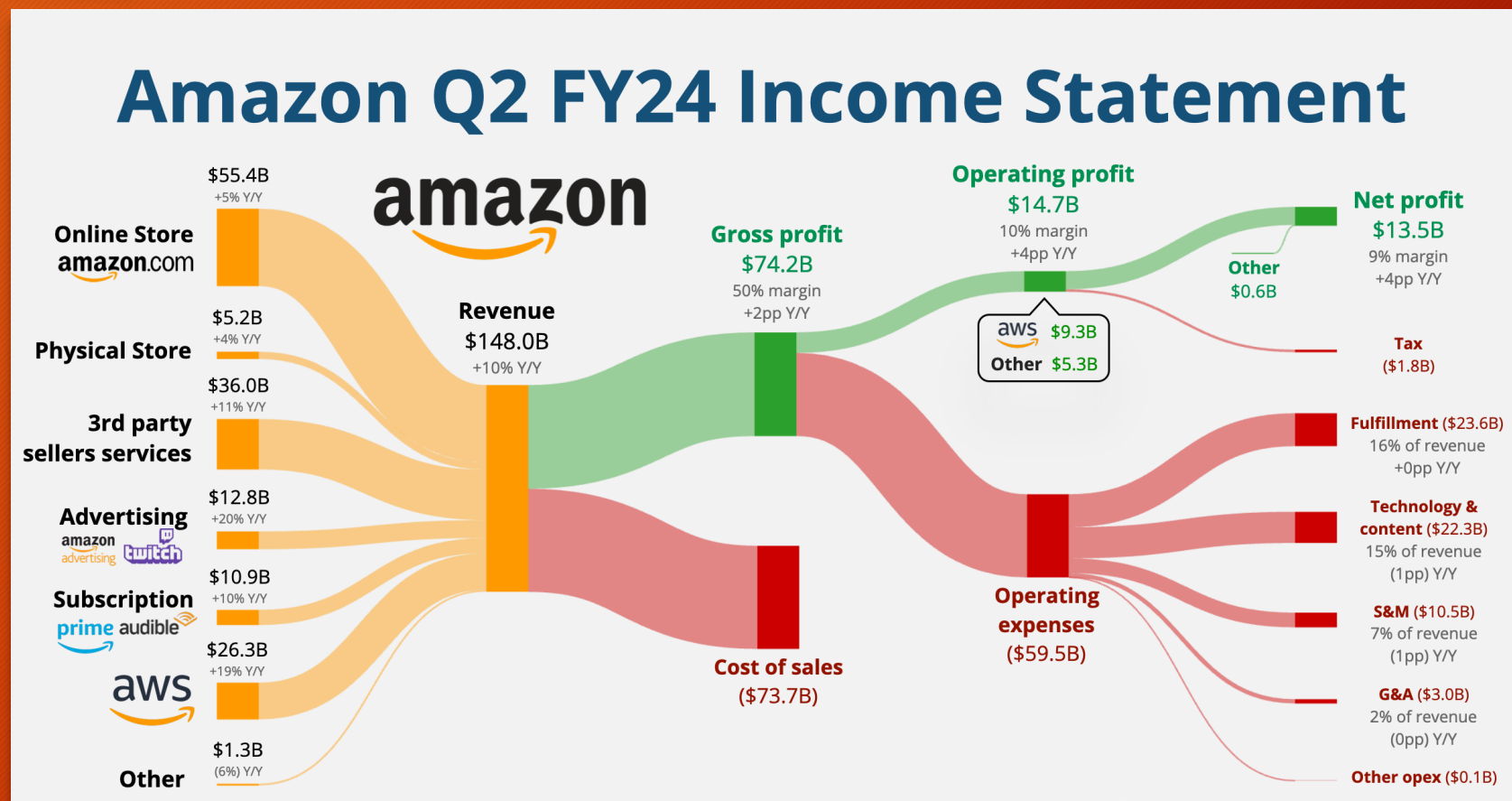
## Threats

- Government regulations
- Cybercrime
- Aggressive competition
- Links to Exploitative Labor (human rights abuse)
- Breakout of fast fashion and online marketplaces



# Recent Performance (Q2 2024)

- Amazon Web Service: \$26.3 billion
  - Increase of 19% YoY
- Amazon physical store: \$5.2 billion
  - Increase of 3.6% YoY
- Amazon Advertising : \$12.7 billion
  - Increase of 20% YoY



# Technological Innovations

- Amazon is the highest used and ranked #1 in the cloud computing service (electronic delivery of computer services, such as storage, databases, etc.)
- In October 2023, Amazon announces a "Project Nile" for 2024 to pursue advancements in AI and cloud computing
  - improved their search relevancy and results by utilizing reviews and implementing advanced AI metrics into their search algorithm
- Developed various versions of AI to assist in search and e-commerce applications

## Examples of projects from Project Nile:

- Amazon Ameilia (AI for sellers) released September 19, 2024
- Project Kuiper (satellite internet service) releases late 2025
- Project Ceiba (AI supercomputer) partnership with Nvidia



# Ratio Analysis

## AMZN

### Leverage:

- Debt To Equity: 28.89%

### Liquidity:

- Current Ratio: 1.10

### Profitability:

- Operating Margin: 9.92%
- Profit Margin: 7.35%

## APPL

### Leverage:

- Debt To Equity: 151.86%

### Liquidity:

- Current Ratio: .95

### Profitability:

- Operating Margin: 29.56%
- Profit Margin: 26.44%

## WMT

### Leverage:

- Debt To Equity: 69.57%

### Liquidity:

- Current Ratio: .80

### Profitability:

- Operating Margin: 4.69%
- Profit Margin: 4.69%

# DCF Valuation

- Forecasted sales growth 10% per year (Q3 projections)
- WACC: 8.57%
- Tax Rate: 17%
- Beta: 1.12

DCF Valuation	
Numerator	52,715.24
Denominator	1.45%
TV	3,629,006
PV of TV	2,405,996
Enterprise Value	2,470,456
Net Debt	58,314
Equity Value	2,412,142
Shares O/S	10,500
Value Price	\$229.73
Market Price	\$193.35
Shares Undervalued	18.81%



# EV/EBITDA

Using Apple to value Amazon	
EBIT	113736
Add: Depreciation and Amortization	11519
EBITDA	125255
Share price	226.47
Shares Outstanding	15200
Market Cap	3442344
Total Debt	215190
Enterprise Value	3657534

EV/EBITDA Multiple	29.20070257
AMZN Valuation	
EV/EBITDA Multiple	29.20070257
EBIT	36852
Add: Depreciation and Amortization	48663
EBITDA	85515
Enterprise Value	2497098.08
Less: Total Debt	125464
Equity Value	2371634.08
Shares Outstanding	10500
Implied Price Per Share	225.8699124
Market Price Per Share	193.35

# Sensitivity Analysis

		WACC				
	\$229.73	7.50%	8%	8.57%	9%	9.50%
	7.11%	897.4151	384.5828	228.5279	173.1505	133.864
LT Growth Rate	6.50%	348.4691	227.1658	160.4407	130.2838	106.1275
	6%	231.4806	169.7472	128.7358	108.1477	90.60282
	5.5%	172.9863	135.2961	107.3583	92.33622	78.95931



# Risk/Return Statistics

- Proposed portfolio changes result in a YTD increase of our beta by +0.04
  - Current beta: .67
  - Rate cuts indicate positive market performance, therefore increasing our beta could be beneficial
- Current Sharpe Ratio: 2.74
  - YTD Sharpe ratio increases +0.22
- Treynor increases from .4 to .42 YTD
- Jensen's increases from 9.61 to 10.66 YTD

# Alternatives/Recommendation

1. Our recommendation is to buy 445 shares of AMZN
  - Increase holdings to \$150k (5% of fund)
  - Use \$53k from sale of MCD and ED
  - Utilize \$48k (23%) of cash balance to purchase remaining shares
2. Hold shares of AMZN, ED, MCD (\$102k)
3. Hold shares of ED and MCD, utilize cash balance to increase AMZN holdings
  - Maintain holdings in ED and MCD of \$53k
  - Utilize \$101k (49% of cash balance) to purchase additional AMZN Shares
4. Sell all shares of AMZN, ED, MCD (\$102k)



# Vote

AMZN Pres



## Divestment:

- Option 1: Sell MCD and ED
- Option 2: Hold ED and MCD
- Option 3: Hold ED, Sell MCD
- Option 4: Hold MCD, Sell ED

## Investment:

- Option 1: Buy additional shares of AMZN
- Option 2: Hold AMZN shares
- Option 3: Sell AMZN shares

# Appendix

- Celani with changes

Portfolio Statistics	3 Months		6 Months		Year To Date		1 Year (Custom)	
	Port	Bmrk	Port	Bmrk	Port	Bmrk	Port	Bmrk
<b>Return</b>								
Total Return	8.69	4.92	11.21	9.95	23.95	21.28	23.95	21.28
Maximum Return	2.07	2.35	2.07	2.35	2.07	2.35	2.07	2.35
Minimum Return	-2.87	-2.98	-2.87	-2.98	-2.87	-2.98	-2.87	-2.98
Mean Return (Annualized)	60.36	32.80	35.36	31.67	51.27	47.51	51.27	47.51
Mean Excess Return (Annualized)	20.77		2.80		2.55		2.55	
<b>Risk</b>								
Standard Deviation (Annualized)	12.84	16.20	11.29	13.63	10.67	12.91	10.67	12.91
Downside Risk (Annualized)	9.51	12.38	8.41	10.25	7.83	9.55	7.83	9.55
Skewness	-0.54	-0.61	-0.48	-0.57	-0.39	-0.47	-0.39	-0.47
VaR 95% (ex-post)	-1.11	-1.85	-1.14	-1.46	-1.09	-1.37	-1.09	-1.37
Tracking Error (Annualized)	8.37		7.62		7.08		7.08	
<b>Risk/Return</b>								
Sharpe Ratio	2.72	1.07	1.67	1.21	2.73	2.07	2.73	2.07
Jensen Alpha	23.20		7.58		10.66		10.66	
Information Ratio	1.73		0.26		0.26		0.26	
Treynor Measure	0.51		0.28		0.42		0.42	
Beta (ex-post)	0.68		0.69		0.69		0.69	
Correlation	0.8588		0.8292		0.8362		0.8362	
Capture Ratio	0.62		0.61		0.53		0.53	

- celani

Portfolio Statistics	Port	Bmrk	Port	Bmrk	Port	Bmrk	Port	Bmrk
<b>Return</b>								
Total Return	8.84	4.92	9.53	9.95	22.01	21.28	33.16	36.30
Maximum Return	1.88	2.35	1.88	2.35	1.88	2.35	1.88	2.35
Minimum Return	-2.69	-2.98	-2.69	-2.98	-2.69	-2.98	-2.69	-2.98
Mean Return (Annualized)	61.38	32.80	29.70	31.67	46.19	45.15	50.14	55.68
Mean Excess Return (Annualized)	21.54		-1.50		0.72		-3.56	
<b>Risk</b>								
Standard Deviation (Annualized)	12.00	16.20	10.98	13.63	10.31	12.87	10.37	12.70
Downside Risk (Annualized)	8.91	12.38	8.23	10.25	7.62	9.50	7.61	9.34
Skewness	-0.55	-0.61	-0.52	-0.57	-0.44	-0.46	-0.34	-0.40
VaR 95% (ex-post)	-1.02	-1.85	-1.05	-1.46	-0.99	-1.37	-1.01	-1.36
Tracking Error (Annualized)	8.90		8.16		7.62		7.23	
<b>Risk/Return</b>								
Sharpe Ratio	2.97	1.07	1.38	1.21	2.51	1.96	2.74	2.51
Jensen Alpha	24.82		4.54		9.61		6.99	
Information Ratio	1.68		-0.13		0.07		-0.35	
Treynor Measure	0.57		0.24		0.40		0.42	
Beta (ex-post)	0.62		0.65		0.65		0.67	
Correlation	0.8416		0.8008		0.8062		0.8220	
Capture Ratio	0.50		0.48		0.48		0.60	