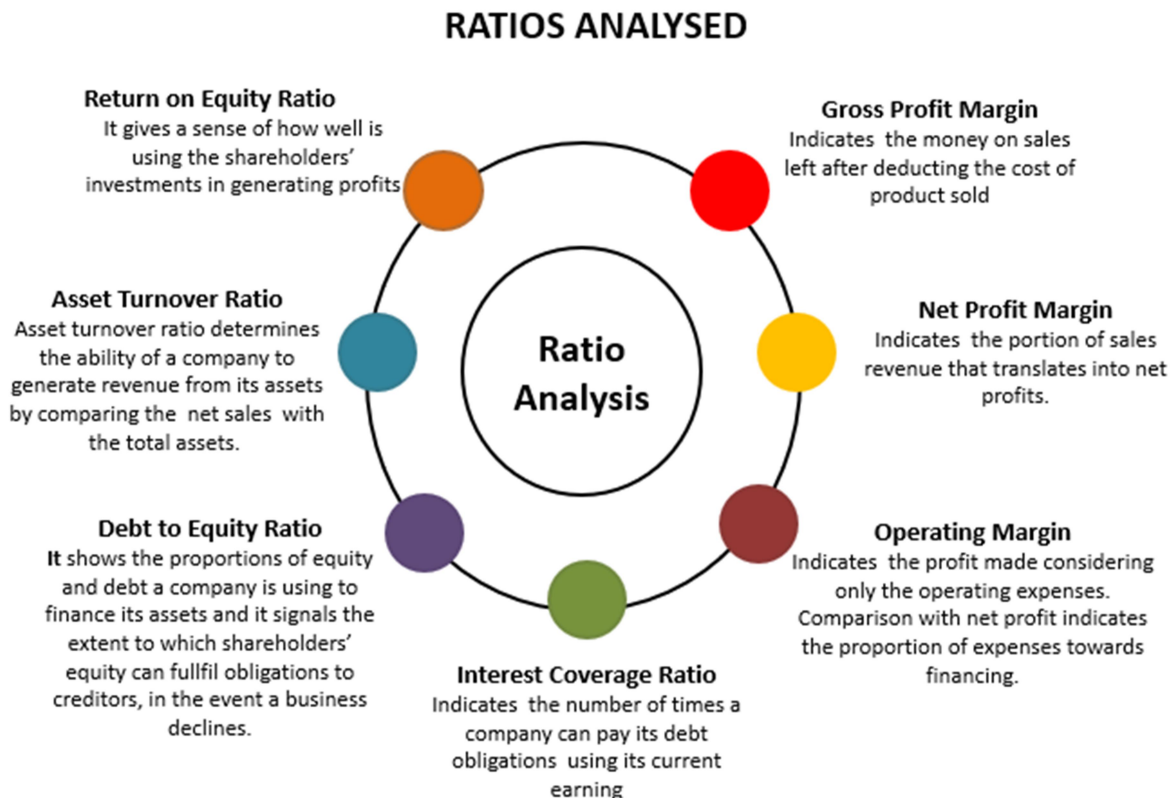


ANALYSIS OF ANNUAL REPORTS OF E-COMMERCE ENTITIES – PART 1

An annual report is a comprehensive report on company's activities and financial performance. The choice of specific words and tone when framing a disclosure in an annual report could be indicative of the underlying facts about a company's financial situation that cannot be conveyed through financial indicators alone. Annual reports are important for understanding the strengths and weaknesses of a company's financial situation. In this article, we enrich your knowledge about e-commerce industry through analysis of annual reports of major industry players - Amazon and Alibaba.

We performed ratio analysis and we will take you through some interesting insights from our analysis. Ratio analysis is used to evaluate an organization's health, such as its liquidity position, operational efficiency, and profitability by studying its financial statements. It helps to analyse how a company is performing over time while comparing a company to another within the same industry.



Ratio Analysis of



	Amazon	Alibaba	Amazon	Alibaba	Amazon	Alibaba
RATIO	2019	2019	2018	2018	2017	2017
Ratio related to investor returns						
ROE	22%	13.18%	28%	14.07%	13%	12.84%
Ratios related to margins						
Gross Profit Margin	41%	45.09%	40%	57.23%	37%	62.42%
Net Profit Margin	4%	23.25%	4%	25.57%	2%	27.59%
Operating Expense Ratio	0.95:1	0.82:1	0.95:1	0.69:1	0.98:1	0.66:1
Ratio related to debt						
Debt to equity Ratio	2.63:1	0.22:1	2.73:1	0.29:1	3.74:1	0.29:1
Interest Coverage Ratio	9.09:1	10.9:1	8.77:1	19.43:1	4.84:1	17.99:1
Ratio related to Efficiency						
Asset Turnover Ratio	0.69:1	0.39:1	0.63:1	0.35:1	0.60:1	0.31:1

INTERESTING INSIGHTS



1. Amazon and Alibaba are both e-commerce giants operating largely without physical stores. Amazon dominates the American shopping space, while Alibaba does the same in China. Amazon sells products directly while also serving as an intermediary for other sellers, taking a cut of the sale.
2. Alibaba's Taobao division is responsible for more than 80% of Alibaba's sales and consists of two main properties. The Taobao Marketplace is similar to eBay, and allows consumers and small businesses to list merchandise for sale. The other major platform, Taobao Mall, is more akin to Amazon. It's a B2C platform that allows larger businesses and brands to sell direct to consumers.

3. The revenue of Alibaba group is increasing y-o-y but at the same time the gross profit is going down each year due to an increase in share-based compensation expense and settlement of a US federal class action lawsuit.
4. The gross profit of Amazon is lower than Alibaba but the more interesting point is Amazon has much lower net profit than Alibaba. This is because of Amazon is operating in too many geographical locations as compared to Alibaba.
5. Alibaba is largely equity driven and not debt driven. At the same time debt-equity ratio of Amazon is much higher. In accounting perspective 2:1 is a good debt-equity ratio but Amazon is more than that as well. But they are reducing debt y-o-y.
6. Operating expense of Amazon is much higher than Alibaba. This also leads to a low net margin ratio of Amazon.
7. As a part of "The Climate Pledge" Amazon has committed to be net zero carbon by 2040. It also intends to purchase 10,000 electric delivery vans. They have also committed to reach 80% renewable energy by 2024 and 100% renewable energy by 2030.
8. Asset turnover ratio of Amazon is higher than Alibaba, which in turn means Amazon makes best use of its assets.

The analysis of the financial statements is a very important process, even necessary for making right decisions. Information obtained from financial analysis, together with accounting, are the basis for making decisions, both internally and externally. From the analysis of financial statements, we can ascertain its financial condition and how it has operated during the periods for which the analysis is conducted and what are future trends in that industry.

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Sources:

<http://www.annualreports.com/Company/amazoncom-inc>

<https://otp.investis.com/clients/us/alibaba/SEC/sec-show.aspx?FilingId=13476929&Cik=0001577552&Type=PDF&hasPdf=1>

<https://www.ecommercefuel.com/alibaba-vs-amazon/>