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| (4). The incredible growth of Amazon.com has put fear into the hearts of traditional retailers. Amazon.com's stock price has soared to amazing levels. However, it is often pointed out in the financial press that the company has never reported a profit for the year. The following financial information is taken from the 2001 financial statements of Amazon.com (10 points).   | ($ in millions) | 2001 | 2000 | | --- | --- | --- | | Current assets | $1,207.9 | $ 1,361.1 | | Total assets | 1,637.5 | 2,135.2 | | Current liabilities | 921.4 | 975.0 | | Total liabilities | 3,077.5 | 3,102.4 | | Cash provided by operations | (119.8) | (130.4) | | Capital expenditures | 50.3 | 134.8 | | Dividends paid | 0 | 0 | | Net loss | (567.3) | (1,411.3) | | Sales | 3,122.4 | 2,762.0 | |
|  |

*Instructions*

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| --- | --- |
| a) Calculate the current ratio and current cash debt coverage ratio for Amazon.com for 2001 and discuss its liquidity. | |
| b) Calculate the cash debt coverage ratio and the debt to total assets ratio for Amazon.com for 2001 and discuss its solvency. |
| c) Calculate free cash flow for Amazon.com for 2001 and discuss its ability to finance expansion from internally generated cash. Thus far Amazon.com has avoided purchasing large warehouses. Instead, it has used those of others. It is possible, however, that in order to increase customer satisfaction the company may have to build its own warehouses. If this happens, how might your impression of its ability to finance expansion change? | |
| pixel d) Discuss any potential implications of the change in Amazon.com's cash provided by operations and its net loss from 2000 to 2001. |
| e) Based on your findings in parts (a) through (d), can you conclude whether or not Amazon.com's amazing stock price is justified? | |