Amazon Market research Report

Liquidity

Amazons’ current ratio dropped slightly from 1.14 to 0.94 meaning short term debts outweighs current assets indicating some liquidity issues. This assertion is reinforced when we consider the quick ratio showing a drop from 0.91 to 0.72 indicating a massive growth in short term liabilities relative to current assets (excluding inventory). Amazons cash ratio grew from 0.25 to 0.35 indicating a strengthening of its immediate cash and cash equivalent reserves to a moderate size. Amazons’ defensive interval of 106 days (down from 132 in Fy21) indicates the company is liquid enough to cover operating expenses for an extended period without relying on new income. Whilst these ratios provide a degree of insight into Amazons liquidity situation it is also important to remember that Amazons unique business model of utilising cash flow from operations for capital investments in order to accelerate growth and lower overall taxes means that while on the surface Amazons liquidity issues may appear startling in reality due to their size and ability to leverage economies of scale factors such as negative working capital and general liquidity are mitigated somewhat by the fact that Amazons operating practice usually involves receiving cash from customers before paying suppliers making working capital less important. Also, Apples size and prestige offers it a strong credit rating giving it access to capital market (debt/equity) financing solutions should liquidity issues present themselves.

The Current ratio is greater than 1 indicating the short-term asset’s ability to meet short term liabilities. Quick and Cash ratios above 0.5 which also indicates that the company can meet more than 50% of its short-term liabilities with its cash in hand. The decline in current ratio was mainly to be attributed to a reduction of marketable securities (following the sale of the company’s stake in Rivian).

As an online marketplace where thousands of vendors are hosted on site, Amazon’s payable days is typically higher than other companies as it is part of its 90-day credit policy. As a result of Amazon’s nature of business, its payable balances are higher than its inventories and receivables where it holds inventory on behalf of its vendors. Therefore, working capital is negative and so is the trading cycle. On a year over year basis the number has worsened, but can be supported with the argument that Amazon has started its own fulfilment services and is a fast growing company.

Operating with a negative Trading Cycle became a source of cash for the company, instead of being a cost for it. However, it can be observed that the Trading Cycle days have reduced over the years indicating that the number of days that they can hold on to the cash has reduced.

Profitability

Any fears regarding Amazons financial situation are quickly assuaged when the corporations profitability is considered. With a gross profit of 42% in FY21 rising to 44% its clear that Amazons business model of prioritising growth and economies of scale is working effectively, this strong gross profit can also be considered as possibly linked to the AWS system and its increasing importance as a revenue driver for the business. Amazons strategy of prioritising growth and reinvestment are very important when considering its somewhat disappointing ebitda margin of 11% as well as its net margin of -1% down from 7% in the previous year

It is notable that Amazon’s Technology & content and Sales & marketing have seen sharp increases, indicating the heavy spend on AWS and Prime Video content. While the e-commerce segment is seen to be normalizing post the Covid-19 boom, sales reflect the increasing global inflation levels.

Solvency

Amazons solvency and debt management strategy can be seen as relatively efficient when its debt to equity ratio of 0.46 (up from 0.35 in the previous year) this perhaps illustrates that Amazons financing strategy relies far more on equity financing than debt issuances and through this ratio we understand where the strength of Amazons credit rating. Amazons conservative approach to debt is also seen through its relatively low (for its scale) debt-total assets margin of 15% (up 3% from the previous year) this allows us to understand that Amazon is lowly leveraged and is managing its debt effectively. Amazons adept debt management is also shown through its strong its times interest earned ratio. Of 5.17 (down 8 from the previous year) indicating a strong margin of safety in covering its interest payments as well as a debt coverage ratio of 3.38 (down from 7 in fy21) indicating a similar strength in covering its overall debt payments. Lastly Amazons solvency can be considered healthy given its free cash flow figure of £3.015 billion indicating a sizeable amount of capital that given the corporations business model is most likely reinvested into capital. It is worth noting however despite Amazons strong debt management it is clear there have been sizeable shifts in the ratios listed above allowing us to speculate there may have been a shift in strategy to relying more on debt financing this could perhaps due to market volatility in relation to its stock.

Amazon’s long-term liabilities have been increasing over the years as the company has increased its Financial lease commitments to facilitate the number of new fulfilment centres opened over the last year. Although the long-term debt remain rather steady, financial lease commitments have dramatically increased which has increased the debt service burden as well. However, the company has adequate levels of interest coverage and free cash flow indicating its financial health. However, the increase in the debt level would also mean that the company’s borrowing capacity in future is strained where it might have to pay higher interests to secure more debt.

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Asset Utilisation

Naturally due to Amazons strategy of pushing for aggressive growth asset utilisation is an important metric in order to understand the company. With a total asset turnover of 1.11x (down .01 from the previous year) it is clear to see that Amazon is effectively ensuring its Assets generate revenue for the business and it shows that the business is adept at scaling its growth in an efficient and sustainable manner which is also shown by the very strong fixed asset turnover ratio of 1.63 (down from 1.81 in fy21).While these figures remain strong it is clear they are somewhat slowing down which is reflected by the fact that Amazon has seen a drop in revenue growth in the first three quarters of fy23 (20%, 16%, 12%) this statement is somewhat seen through the steep drop in return on assets from 8% in FY21 to -1% indicating either a continuation of Amazons aggressive growth strategy or highlighting operational inefficiencies or perhaps some combination of the two. Amazons true strength in sales is reflected through its inventory turnover of 14.94 (up from 14.63) showing the corporation is having no issue converting inventory into sales and this ratio can be considered especially praiseworthy given Amazons broad range of products and its large and complex business structure.

Amazon has a large portion of goodwill in its asset base, where the Fixed asset turnover is almost three times higher than the total asset turnover. The goodwill and intangibles are manly as a result of acquisitions in addition to the increased R&D spending on AWS which we will have to closely watch for future profitability.

Market research

As stated earlier due to Amazons suspected preference in equity financing over debt it makes sense that there are weaker ratios present here then in the previous two segments. To begin with Amazons P/E ratio of $50.56 in FY21 demonstrated that the business was relatively overvalued which seems to have been based far more on expected growth and potential than present reality this hypothesis is proven correct by the fact that in FY22 Amazon reported a P/E ratio of $-314 this could be linked to Amazons growth initiatives or a downturn in overall performance, which would explain the drop in price to book value as well as earnings per share and could allow us some insight into why the company is relying more on debt financing going forward. Return on equity(-2% down 26points) is another metric by which the corporation is no longer behaving in a way attractive to investors with a short term mindset and given the stifled growth in fy23 it is a strong indicator that further losses could be expected. Lastly, Amazons loss of investor faith could be seen through the stark drop in the EV/Ebitda ratio from 29.23 to 16.17 showing investors are losing confidence in the corporation and perhaps consider the stock overvalued.

ROE, ROA and ROCE all are within the health territory, however, have declined compared to previous year. Furthermore, given Amazon’s valuations, one would expect the ratios to be better as there are many other smaller companies with better returns than Amazon, however, it is notable that these valuations are backed by Amazon’s expansion