

## **Introduction**

This report briefly describes the financial health of Amazon.com Inc for the financial periods 2022 and 2021 based on five (5) key financial ratios, namely liquidity, profitability, solvency/debt management, asset utilization and investor/market ratios. The essence of this financial analysis is to provide information to management to make thorough decisions about the operations of Amazon.com Inc. The analysis was carried out using information from the balance sheet, income statements and cash flow statements for the years under consideration.

## **Liquidity Ratios**

Liquidity ratios are used to show a company's ability to pay off its short-term debts from its liquid assets without losing their value. In this case, the more liquid the assets of the Amazon.com Inc, the more likely they can get cash to pay off their debt. The first ratio analysis performed is the current ratio which gives an indication of Amazon's ability to pay of its current debts using the entirety of its assets available. The ratio was 1.14 in 2021 but declined to 0.94 in 2022 indicating that Amazon does not have a good liquidity position in 2022 because the company has less short-term assets to cover its short-term liabilities. This also indicates that Amazon has less working capital in 2022. Amazon's quick ratios were all below one – declining from 0.91 in 2021 to 0.72 in 2022. The below 1 ratio indicates that the company's financial health is not in a good position. Thus, it will not be able to pay of its full current liabilities with its most liquid assets (i.e., without selling its inventory). The company's cash ratio increased from 0.25 on 2021 to 0.35 in 2022 however, these ratios are relatively low compared to the preferred ratios between 0.5 and 1, indicating that the company has not generated enough cash to pay of its current liabilities. The estimated defensive interval ratios are relatively high although it declined from 427 in 2021 to 313 in 2022 indicating that the company can work for longer days without the requirement of utilizing non-current assets. In terms of inventory days, the estimates for the years are relatively low (43 and 44) and this indicates that inventories are being managed well. However, the days payable ratios are high which presupposes that it takes the company more days to pay its vendors in the past 2 years. Also, the day receivable days ratios of 54 and 37 are relatively low indicating that the company does not have any difficulty in collecting payments from its customers. In terms of net trading cycle, the company for the past 2 years have recorded negative figures which is good because it shows that the company is being paid for its services before it pays its vendors. Finally, the company working capital as a percentage of sales were very low in this not good because its shows that the company is not efficient in running operations and generating sales.

## **Profitability Ratios**

In terms of profitability, the gross margin ratios increased from 0.42 in 2021 to 0.44 in 2022, which is good because it indicates that the company has been more efficient in generating profit for every dollar of the cost involved in generating the profit. However, the EBITDA, EBIT and net margin ratios were very low. The EBIT and net margin ratios were both negative in 2022 (-0.01) indicating that for every dollar generated in sales, the company lost 0.01 dollars. This shows that the company was not profitable in 2022 despite the increase in revenues.

## **Solvency/debt management**

The company's debt to equity ratio increased from 0.35 in 2021 to 0.46 in 2022 but remains below 1 which indicates that the company will be able to cover up its long-term debt with its shareholders equity. Just like the debt-to-equity ratios, the estimated debt to assets ratios (0.15

and 0.12) and long-term debt to capital ratios (0.31 and 0.26) were all below 1. This is good in terms of the financial leverage of the company because the low ratios indicate it is not risky to invest in Amazon. In terms of debt coverage, the company was in a good position in 2021 (9.82) compared to the 2022 ratio that was below 1 (0.75). This low ratio indicates that the company may struggle to meet its debt obligations. Finally, although the company's free cash flow per share increased from 4.85 in 2021 to 11.37 in 2022, the ratio remains very low which means that the company does not have enough cash to pay off its debt, dividends, buy back stock and facilitate its growth.

### **Asset utilization**

The company's asset turnover ratio decreased from 1.12 in 2021 to 1.11 in 2022. Despite the decrease the ratios remain above 1 and this is good because it shows that the company can generate enough revenue using its assets. The case is not different for the fixed assets turnover ratio which were above 1, indicating that the company is managing its fixed assets more effectively. In terms of return on assets the ratio decreased from 0.08 in 2021 to negative 0.01 in 2022. These ratios are significantly low and shows that the company is not efficient in earning profit from its resources. Finally, the estimated inventory turnover ratios (8.4 and 8.34) for the two years are high which indicates that company is not overstocking, and this shows that the company is managing its inventory very well.

### **Investor/market ratios**

The price to equity ratio decreased from 51.46 in 2021 to negative 311.11 in 2022. This indicates that the current stock price of Amazon is very low relative to earnings. The estimated earnings per share decreased from 3.24 in 2021 to negative 0.27 in 2022. This shows a significant drop in the corporate value of Amazon in 2022. The negative ratio also shows that the company in 2022 made losses for each share of its stock and this is to be expected because the company made income loss in 2022. This position is not desirable because it sends a bad signal to investors. On the other hand, the price to value and book value per share ratios are relatively high. The book value per share for instance increased from 13.43 in 2021 to 14.49 in 2022 but remained above 1. The high ratio shows that the market is willing to pay a higher premium above the assets of the company. This is not a desirable position for value investors because the stocks are overvalued. The price to book value which measures the market's valuation of a company relative to its book value decreased from 12.24 in 2021 to 5.80 in 2022. These ratios are above 1 and hence are not considered solid investment by value investors. Estimates of the firms return on equity ratio showed a decline from 0.24 in 2021 to negative 0.02 in 2022 indicating that Amazon for the years under consideration has not been efficient in generating income and growth from its equity financing. Thus, Amazon has been less effective in investing its equity to generate income and growth. The return on capital employed on the other hand increased from 1.35 in 2021 to 1.46 in 2022. The estimates are above 1 which indicates that the company has been efficient in the use of capital invested in its operations. Finally, the company's enterprise value to EBITDA ratio increased marginally from 23.83 in 2021 to 23.90 in 2022. These ratios are relatively high indicating that there is a potential that the company is being overvalued.