Amazon Financial Report

This report is going to discuss the overall finance health of major company Amazon. Taking a look at the profitability of amazon the gross margin of this could represent the company is very profitable and that there are many opportunities for growth. This is because it suggests that the company is generating more profit on each dollar of sales meaning there will be more money to invest is these future growth opportunities. With amazons EBIT also being positive this shows the companies real earning power before its interest and taxes are considered. This is beneficial for investors as it helps to again point that amazon is a very profitable company meaning that investors capital is likely to also follow the same growth pattern so investors could also then feel obliged to then invest more which in turn will help amazon to maintain the high levels of growth. Looking between the two years EBIT does slightly fall in the second year compared to the first year as well as the net margin which also takes a large fall however while it is still positive the company is still performing well however this may deter some investors until the numbers make an improvements hopefully in 2023.

Taking a look at liquidity of amazon the current ratio of current assets and liabilities is shows to be falling over this 2 year period. The drop from 1.14 in 2021 to 0.94 in 2022 actually shows that in 2021 they had more current assets than liabilities. However in 2022 this changed and being below 1 this represents that amazon have more current liabilities than assets. This in turn means that amazon may have struggled to pay short term obligations as they just did not have the resources to do so. This poor ratio trend is seen in the quick and cash ratio to as they all tell similar stories that the short term financial health of amazon was not at a good position throughout the 2 years discussed. With amazons inventory days also being over a month this means that amazon hold products on average for this long before they are sold. This contributes to the statement that their financial health in the short term to deal with current liabilities is not great as it takes them longer to sell items.

Furthermore assessing the financial health of amazon you can use inventory turnover. Inventory**turnover measures how often a company replaces inventory relative to its cost of sales. Looking at the 2 years covered this number is over 1 and slightly rises from 2021 from 8.34 to 8.40 in 2022. This indicates the overall position on inventory turnover improved as the higher the number this generally reflects better performance for the company. Furthermore, adding to the positive indicators for asset utilisation with the companies total asset turnover being more than 1 this shows** company is creating more sales per dollar of assets, indicating efficient asset management.

Taking a look at the solvency and debt management of amazon these stats make amazons financial health look rather favourable. This is because figures like long term debt to capital being less than 1.0 is a good position as if this had been over this could suggest the company may be overleveraged and be at risk of defaulting on its loans. Another figure contributing to this is also the company’s debt to equity figures of 0.35 in 2021 and 0.46 in 2022. While there is a rise between the two years calculated, this is by no means cause for concern as this still implies that the company is still in a very good position as if it was 1.0 this would mean that long term debt is equal to shareholders equity. Ideally this figure would be as low as possible but around 0.5 is a very good position for a company such as amazon which indicates there overall financial health is still very good.

Finally taking a look at amazons investor/ market ratios such as price to equity. P/E ratio, or price-to-earnings ratio, is a quick way to see if a stock is undervalued or overvalued. The lower this figure generally the better this will be for the business and investors. A market average is typically seen to be about 20-25. Amazon in 2021 is double this sitting at 44.76. Another figure to look at is price to book value. A company with a high P/B ratio could mean the stock price is overvalued, while a company with a lower P/B could be undervalued. Amazons P/B value of 11 in 2021 and 10.3 in 2022. This figure is neither to low or to high however it is still a fairly low number which could represent that stock is undervalued.